

CHAPTER 3: ORGANISATIONAL MANAGEMENT

INTRODUCTION

The purpose of this function is to render a professional support service that is well aligned to the municipality's Integrated Development Plan (IDP) as well as to the needs of the municipality's stakeholders and customers. The main objectives include:

- Development and implementation of an Integrated Human Resources Strategy;
- Design and implementation of an organisational structure aligned to the municipality's IDP;
- Formulation and implementation of human resources programmes that are consistent with the IDP;
- Development of the organisational human resources, including Councillors;
- Implementation of the HIV/AIDS strategy and employee wellness programme;
- Motivation of employees and implementation of change management programmes;
- Development and implementation of retention and talent management strategies;
- Maintenance of a labour relations environment that is conducive to and that promotes organisational stability and harmony;
- Facilitation of employer/employee relations to resolve disputes and to create a culture of healthy interactions and tolerance;
- Provision of management support and leadership on pertinent organisational issues; and
- Implementation of the Task Job Evaluation Systems.

Employment equity:

Total workforce: Posts 0 – 22

TARGET GROUP: GENDER AND RACE	LEVEL OF REPRESENTATION: REQUIRED FIGURE/TOTAL WORKFORCE	% OF TOTAL WORKFORCE
African female	42/101	42%
African male	59/101	58.4%
Coloured female	0/101	0%
Coloured male	0/101	0%
Indian female	0/101	0%
Indian male	0/101	0%
White female	0/101	0%
White male	0/101	0%

Employees with disabilities:

TARGET GROUP: GENDER AND RACE	LEVEL OF REPRESENTATION: REQUIRED FIGURE/TOTAL WORKFORCE	% OF TOTAL WORKFORCE
African female	0/101	0%
African male	0/101	0%
Coloured female	0/101	0%
Coloured male	0/101	0%
Indian female	0/101	0%
Indian male	0/101	0%
White female	0/101	0%
White male	0/101	0%

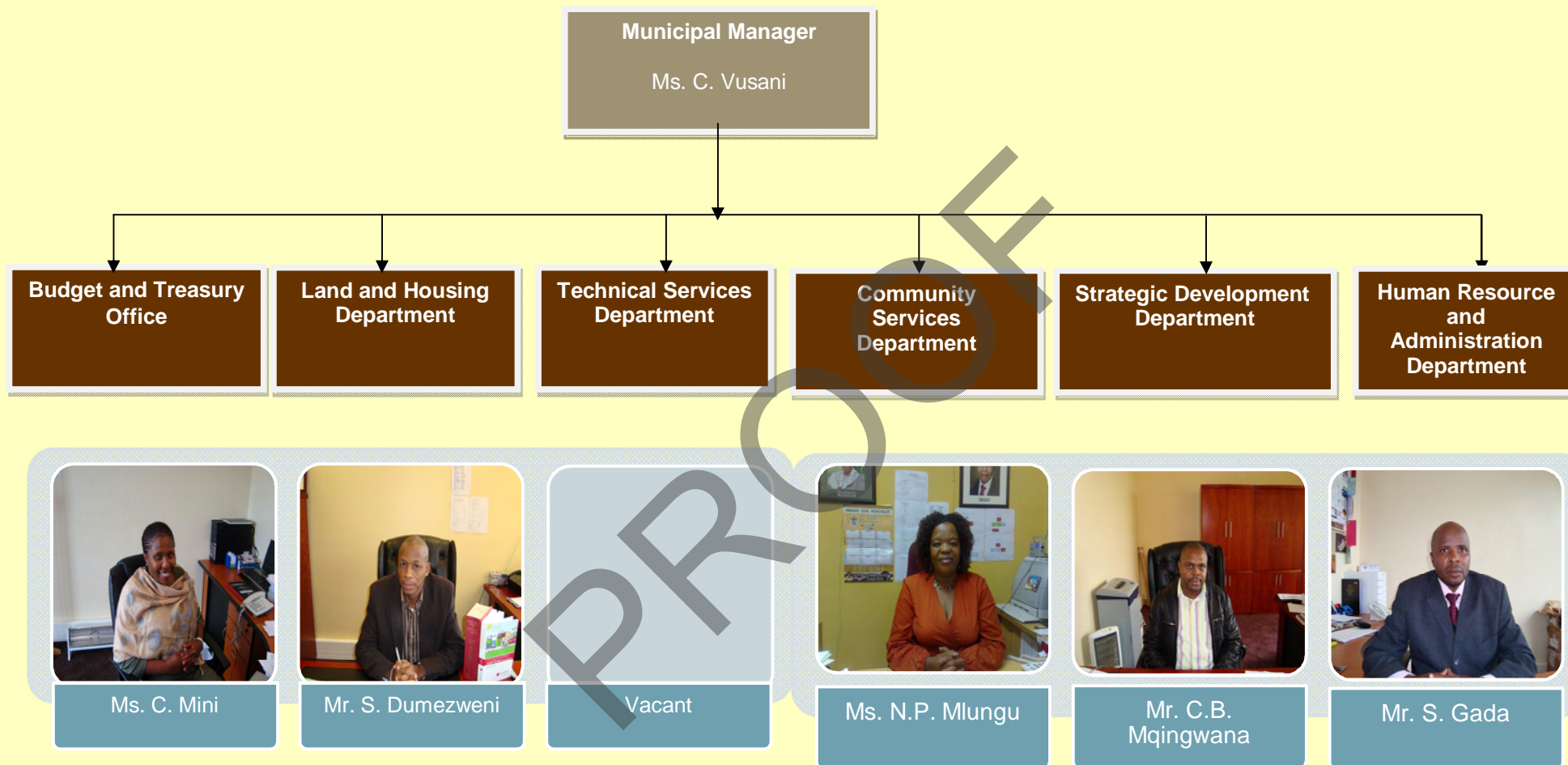
Employment equity for top management levels (section 57managers):

TARGET GROUP: GENDER AND RACE	LEVEL OF REPRESENTATION: REQUIRED FIGURE/TOTAL WORKFORCE	% OF TOTAL WORKFORCE
African female	2/6	33.3/%
African male	3/6	50/%
Coloured female	0/6	0%
Coloured male	0/6	0%
Indian female	0/6	0%
Indian male	0/6	0%
White female	0/6	0%
White male	0/6	0%

Pension and medical aid:

PENSION FUNDS	MEDICAL AID FUNDS
1. SAMWU National Pension Fund	1. SAMWU Medical Scheme
2. Eastern Cape Group Municipal	2. Bonitas Medical Scheme
	3. Key Health Medical Scheme
	4. L.A. Health Scheme
	5. Hosmed Medical Scheme

MANAGEMENT ORGANISATIONAL STRUCTURE



Staffing levels as 30 June 2008:

DIRECTORATE/DEPARTMENT	COMPLEMENT	VACANCIES	ACTUAL
Office of the Mayor	4	2	2
Community Services Department	45	16	29
Technical Services Department	16	9	7
Finance Department	18	11	7
Strategic Department	7	1	6
Land and Housing Department	6	1	5
Office of the Speaker	4	2	2
Human Resource and Administration	17	8	9
Total	117	49	67



AUDITED STATEMENTS AND FINANCIAL INFORMATION

CHAPTER 4:



CHAPTER 4: AUDITED STATEMENTS AND FINANCIAL INFORMATION

Annual Financial Statements for the year ended 30 June 2008

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ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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MBHASHE LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for the year ended

30 June 2008

I am responsible for the preparation of these annual financial statements, which are set out on pages 2 to 41, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 21 of these annual financial statements are within

the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

N.C. VUSANI

Municipal Manager

Date

DRAFT REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MBHASHE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

Introduction

1. I was engaged to audit the accompanying financial statements of the Mbhashe Local Municipality ("the municipality") which comprise the statement of financial position as at 30 June 2008, 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 municipal manager 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 accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) ("MFMA") and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). 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, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Because of the matter discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

Basis of accounting

5. The municipality's policy is to prepare financial statements on a comprehensive basis accounting as determined by the National Treasury, as set out in accounting policy note 1 of the annual financial statements.

Basis for disclaimer of opinion

Revenue – service charges and rates

6. Service charges were disclosed as R2.6 million on the face of the statement of financial performance while the trial balance amount is R702 858. Management was unable to provide a comprehensive explanation or reconciliation of the above variance. The general ledger accounts could not be provided by the municipality. Daily cash takings were not banked daily and under banking amounting to R24 590 was noted. Reconciliations of cash receipted and cash deposited were not performed. A valuation roll, customer statements, invoices and billing reports were not provided by the municipality.
7. Furthermore, the municipality's rates policy and tariff policy were not provided.
8. The municipality's records and systems did not permit the application of alternative audit procedures. Consequently, I was unable satisfy myself as to the completeness, accuracy and occurrence of service charge revenue amounting to R2.6 million, as disclosed in note 10 to the annual financial statements.

Revenue – rental of facilities and equipment

9. Rental of facilities and equipment was disclosed as R198 313 on the face of the statement of financial performance, while the trial balance amounts to R251 899. Management was unable to provide a comprehensive explanation or reconciliation of the above variance. The general ledger accounts could not be provided by the municipality. Rental agreements, as well as details of municipal housing rentals, were requested from the municipality, but were not provided.
10. The municipality's records and systems did not permit the application of alternative audit procedures. Consequently, I was unable satisfy myself as to the completeness, accuracy and occurrence of rental income relating to facilities and equipment amounting to R198 313, as disclosed in the annual financial statements.

Interest earned on external investments

11. Interest earned – external investments was disclosed as R1.3 million on the face of the statement of financial performance. The trial balance amounts to R16 875. Management was unable to provide a comprehensive explanation or reconciliation of the above variance. The general ledger accounts could not be provided by the municipality.
12. The municipality's records and systems did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness, accuracy and occurrence of revenue earned on external investments amounting to R1.3 million, as disclosed in the annual financial statements.

Government grants and subsidies

13. In terms of the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA), an amount of R73.9 million should have been received during the year. A reconciliation or schedule detailing grant funding received was not provided. The statement of financial performance reports Government Grants and Subsidies as R67.1 million. Grant income per the trial balance amounts to R68.3 million. The reconciliation of this balance was not provided. Furthermore an adequate explanation of the differences was not provided.
14. DORA reflects an amount of R37.6 million as equitable share for the current financial year. An amount of R45.2 million has been disclosed in the notes to the annual financial statements. The municipality was unable to provide an adequate explanation for the difference. The municipality has also not disclosed the portion of equitable share utilised to subsidise services provided to indigent debtors.
15. The municipality's records and systems did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness, accuracy and occurrence of Government grants and subsidies amounting to R67.1 million, as disclosed in the annual financial statements.

Other income

16. Other income of R1.9 million per the annual financial statements could not be reconciled to the trial balance amount of R1.8 million. No supporting documentation was provided by the municipality.
17. The municipality's records and systems did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to completeness, accuracy and occurrence of Other income amounting to R1.9 million, as disclosed in note 12 in the annual financial statements.

Employee costs

18. Monthly payroll reconciliations are not prepared, therefore it was not possible to determine whether payroll costs for salaried employees were completely and accurately recorded. Wage registers are not maintained at the municipality for wage workers and supporting documentation could not be obtained for payments made to casual workers, therefore it was not possible to determine whether wage expenditure was correctly accounted for.
19. The municipality was unable to provide all supporting documents requested for leave taken by all employees, as well as leave paid out to employees, therefore it was not possible to determine whether leave taken by employees was completely and accurately recorded.
20. Documented working regulations of the municipality, the collective agreements entered into between the municipality and its employees regarding overtime, the overtime policy and a listing of overtime payments made to senior management was requested, but could not be provided by the municipality.
21. Supporting documentation for retirement benefit information as disclosed in note 26 to the annual financial statements was not provided. Furthermore the disclosure was not in compliance with IAS 19 (AC 116): Employee benefits.
22. The municipality's records and systems did not permit the application of alternative audit procedures. Consequently, I was unable satisfy myself as to completeness, occurrence and accuracy of Employee costs amounting to R22.8 million as disclosed on the statement of financial performance.

General expenses

23. Supporting documentation relating to repairs and maintenance, grants and subsidies paid and general expenses of R3.2 million was not provided. The repairs and maintenance, grants and subsidies paid and general expenses balance could not be reconciled to the trial balance amount of R11.9 million. Management was unable to provide a comprehensive explanation or reconciliation of the above variance. Furthermore a general ledger and a detailed listing of leases was not provided.
24. Tender documentation, bid documentation, tender evaluation reports, tender registers and details of payments made to consultants was not

provided. This is due to the fact that the municipality does not have a supply chain management function.

25. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the occurrence and accuracy of repairs and maintenance, grants and subsidies paid and general expenses amounting to R16 million as reported in the statement of financial performance.

Funds and reserves

26. I was unable to verify the opening balance of the accumulated surplus due to the disclaimer of audit opinion issued in the prior year. Misstatements which occurred in the prior year have not been corrected. Consequently, I was unable to satisfy myself as to valuation of the accumulated surplus of R82.7 million as reported in the statements of financial position and changes in net assets.
27. I was unable to verify the opening balance of the government grant reserve due to the disclaimer of audit opinion issued in the prior year. A fixed asset register was not submitted, therefore the valuation of property, plant and equipment reported in the statement of financial position could not be verified and therefore the transfers for additions, disposals and depreciation of property, plant and equipment between the accumulated surplus and the government grant reserve could not be confirmed. I was therefore unable to satisfy myself as to the valuation of the government grant reserve of R9.7 million as reported in the statements of financial position and changes in net assets.

Creditors

28. The accrual for leave of R1 million disclosed in note 2 to the annual financial statements is based on the leave records of the municipality, which were found to be inadequate. Instances were found where leave recorded as taken was not supported by leave applications and documentation authorising the absence from work. Attendance registers for some employees were not submitted.

Furthermore both the accrual for leave pay and provision for performance bonuses have not been reassessed in the current year. It is not the municipality's policy to pay performance bonuses, thus there should not be a provision for performance bonuses. However, the municipality does pay annual bonuses in the form of a 13th cheque regardless of performance which have not been accrued for.

29. Creditors' reconciliations are not prepared. Expenses amounting to R667 944 were not correctly accrued for at year end. The creditors balance per the trial balance of R140 951 was not reconciled to the balance per the annual financial statements. The municipality's records and systems did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness, existence and valuation of the Creditors balance of R2.2 million as disclosed in note 2 to the financial statements.

Unspent conditional grants and receipts

30. Unspent conditional grants and receipts are disclosed as R6.3 million in the statement of financial position. This balance could not be reconciled to the trial balance. Opening balances per note 3 does not reconcile to the 2007 comparative figures per the statement of financial position. Management was unable to provide an explanation for these differences. Consequently, I was unable to satisfy myself as to the completeness, existence and valuation of the Unspent conditional grants and receipts balance of R6.3 million as disclosed in note 3 to the financial statements.

VAT

31. VAT due to the South African Revenue Services ('SARS') of R1 million is disclosed in note 4 to the financial statements. This balance has not been reconciled to the VAT 201 returns submitted to SARS, and as a result no documentation is available to support the balance. SARS reports the VAT balance due to the municipality as R 21.9 million (in respect of the 2004/ 2005 financial year to the 2007/ 2008 financial year).

32. Tax invoices amounting to R4 million did not reflect the VAT registration number of the municipality as required by the VAT Act.

33. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness, existence and valuation of the VAT creditor of R1 million.

Property, plant and equipment

34. A fixed asset register was not provided. Furthermore, depreciation of R2.8 million was reported in the statement of financial performance. This amount could not be traced to the trial balance. Management was unable to provide the basis of calculation of this amount.

35. The municipality's assets records and systems did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the valuation, accuracy, existence, completeness and rights and obligation of assets to the value of R63.9 million as disclosed in the statement of financial position.

36. Appendix A to the annual financial statements discloses an analysis of amounts disclosed as property, plant and equipment. Depreciation of R2.8 million and capital additions of R13.1 million could not be traced to the trial balance or supporting documentation. The opening balances for each category of fixed assets could not be traced to the prior year annual financial statements.

37. GAMAP 17.15 states that it is appropriate to allocate the total expenditure on an asset to its component parts and account for each component separately when the component asset has different useful lives or provide benefits to the entity in a different pattern, thus

necessitating the use of different depreciation rates and methods. The municipality does not separate its fixed assets in terms of their individual components. Thus GAMAP 17 was not complied with.

Consumer debtors

38. Consumer debtors of R6.5 million per note 7 to the financial statements could not be traced to the debtors' age analysis. A reconciliation was not prepared by the municipality. Customer statements, invoices and billing reports were not provided.
39. The basis for calculating the provision for bad debts per note 7 to the financial statements was not provided by the municipality. This provision could not be agreed to the trial balance.
40. Bad debts of R5.9 million were written off during the year per the statement of financial performance. The calculation of this amount could not be traced to supporting documentation.
41. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable satisfy myself as to the completeness and valuation of the Consumer debtors balance of R6.5 million and the completeness and valuation of the Provision for bad debts of R6.4 million and as disclosed in note 7 to the annual financial statements.

Other debtors

42. Other debtors of R111 358 could not be traced to the trial balance or to supporting documentation.
43. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness and valuation of the Other debtors balance of R111 358 as disclosed in note 8 to the annual financial statements.

Cash and cash equivalents

44. Outstanding cheques of R3.3 million, included in the reconciliation between bank statements and the cash book were found to have been outstanding at 30 June 2007 and are thus invalid reconciling items as they are stale and should be reversed to Creditors.
45. A First National Bank account reflecting a balance of R635 645 at 30 June 2008 is included in the Cash and cash equivalents balance of R37.9 million in the annual financial statements. This bank account was closed during the 2006/ 2007 financial year. Management were unable to provide an explanation for this balance.

46. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness, existence and valuation of the Cash and bank balance of R37.9 million as disclosed in note 9 to the annual financial statements.

Irregular expenditure

47. In terms of Government Notice R1224 published in Government Gazette No. 29447 of 1 December 2006, the upper limits of the total remuneration package of the executive mayor may include a motor vehicle allowance. In addition, the municipality may also make an official vehicle available to the mayor provided it is used for official purposes. No procedures or policies have been adopted by the municipality to ensure that the mayoral vehicle is used only for official business or to identify private usage. It was not possible to determine the extent of the irregular expenditure incurred.

48. The municipality was requested to provide details of a mayoral residence provided at no cost to the mayor. No information regarding this was received. Such a benefit does not fall within the framework of the Political Office Bearers Act, 1998 (Act No. 20 of 1998) and would constitute a violation of section 167 of the Municipal Finance Management Act ('MFMA'). As a result, the market related rental of such a residence would constitute irregular expenditure if the cost of such housing was not recovered from the mayor. The full extent of the irregular expenditure could not be determined.

49. In terms of section 11(1) of the MFMA, only the municipal manager, chief financial officer or another delegated official may authorise the withdrawal of municipal funds from the municipality's bank accounts. Unidentified payments amounting to R508 357 were processed from the main bank account bank statement. Municipal officials were unable to explain these payments. As not all bank statements for the year were presented, I am unable to quantify the total amount relating to irregular payments.

50. Credit card statements relating to the Municipal manager, Chief financial officer, Speaker and Mayor were requested, but were not provided by the municipality. Any expenditure incurred relating to these credit cards is thus considered irregular.

51. Regulation 12 of the Supply Chain Management Regulations specifies the levels of expenditure at which verbal and/or written quotes should be obtained. The municipality did not follow this regulation when incurring expenditure amounting to R150 665. Furthermore, an asset requisition of R89 275 was not authorized by the municipal manager as required by the municipality's procurement policy. This

expenditure is thus considered irregular.

52. Expenditure amounting to R323 494 was not authorised by the designated official in terms of section 65 of the MFMA. This expenditure is thus considered irregular.
53. The municipality did not disclose irregular expenditure described above as prescribed by section 125(2)(d) of the MFMA.

Fruitless and wasteful expenditure

54. Two months of salary payments totalling R11 928, were made to two employees after termination of employment. This constitutes fruitless and wasteful expenditure.
55. Section 11(1) of the MFMA prescribes the purposes for which expenditure may be incurred by the municipality. Private telephone calls by employees and officials are not included in such allowed expenditure. No system was in place to monitor and recover the cost of private telephone calls made by employees. It was not possible to determine the extent of this fruitless and wasteful expenditure.
56. The municipality did not disclose fruitless and wasteful expenditure described above as prescribed by section 125(2)(d) of the MFMA.

Related parties

57. The municipality has not documented and implemented adequate procedures to identify related parties, as well as any transactions and balances with such related parties. Councillors are required to complete declarations if interest in outside companies, however these were found to be incomplete.
58. Consequently, it was not possible to determine whether the information contained in the register of interests in contracts or the related party disclosure in the financial statements was complete and accurate.

Councillors' arrear consumer accounts

59. In terms of section 124(1)(b) of the MFMA, the notes to the annual financial statements of a municipality must include particulars of any arrears owed by individual councillors to the municipality for services and which at any time during the relevant financial year were outstanding for more than 90 days, including the names of those councillors. Councillors' arrear consumer accounts are not disclosed in the annual financial statements. Therefore it was not possible to verify the completeness and accuracy of the disclosure of councillors' arrear consumer accounts.

Disclaimer of opinion

60. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Mbashe Local Municipality. Accordingly, I do not express an opinion on the financial statements.

PROOF

OTHER MATTERS

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

Internal control

61. 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 paragraphs below depict the root causes of the matters indicated, as they relate to the five components of internal control.

Reporting item	Control environment	Assessment of risks	Control activities	Information communication	and	Monitoring
Basis for disclaimer of opinion						
Revenue – service charges	X					
Rental of facilities and equipment	X					
Investment interest			X			
Government grant and subsidies			X			
Other income	X					
Employee costs		X				
General expenses			X			
Funds and reserves	X					

Reporting item	Control environment	Assessment of risks	Control activities	Information communication and	Monitoring
Creditors		X			
Unspent conditional grants and receipts			X		
VAT	X				
Property, plant and equipment	X				
Consumer debtors	X				
Other debtors	X				
Cash and cash equivalents			X		
Irregular expenditure	X				
Fruitless and wasteful expenditure			X		
Related parties	X				
Councillors' arrear consumer accounts			X		

Non-compliance with the Municipal Finance Management Act

- 62. Section 9(b): Evidence of bank account information submitted to provincial treasury and the Auditor-General was not provided.
- 63. Section 65(2)(e): Invoices to the value of R5.3 million were not paid within thirty days.
- 64. Section 64(3): Long outstanding balances from other Organs of State have not been communicated to National Government.
- 65. Section 67: Details of funds transferred to an organisation or body outside any sphere of government (otherwise than in compliance with a commercial or other business transaction) were not provided.
- 66. Supply Chain Management regulations, Regulation 2(1): The municipality does not have a procurement policy in place.
- 67. Supply Chain Management regulations, Regulation 23(c): The municipality does not have a contract register in place to record all bids received.

Non-compliance with the Unemployment Insurance Fund Contributions Act

- 68. Unemployment Insurance Fund contributions for employees was calculated at 0.95% instead of 1%. Unemployment Insurance Fund contributions are not deducted from councillors' salaries. This is contrary to the Unemployment Insurance Fund Contributions Act 4 (Act 4 of 2002).

Fraud risk

- 69. There is no approved fraud prevention plan at the municipality. This increases the risk of fraud and error within all major business cycles.

Performance Management System

- 70. Sections 39 and 40 of the Municipal Systems Act, 2000 (Act No.32 of 2000) require the development of a Performance Management System and the establishment of mechanisms to monitor and review the Performance Management System. There is insufficient evidence that the council complied with these statutory requirements during the period under review.

MATTERS OF GOVERNANCE

71. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 		X
<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 		X
<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in Section 166(2) of the MFMA. 		X
Internal audit		
<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 		X
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		X
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in Section 165(2) of the MFMA. 		X
Other matters of governance		
<ul style="list-style-type: none"> The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA. 		X
<ul style="list-style-type: none"> The annual report was submitted to the auditor for consideration prior to the date of the auditor's report. 		X
<ul style="list-style-type: none"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit. 		X
<ul style="list-style-type: none"> No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. 		X
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 		X

Matter of governance	Yes	No
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the provincial treasury before 30 October 2007. 		X
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 		X
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 		X

Report on performance information

72. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

73. 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

74. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

75. 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.

76. 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 (Performance information)

Non-compliance with regulatory requirements

No reporting on performance information

77. The municipality has not reported performance against pre-determined objectives as required by section 121(3)(c) of the MFMA.

Existence and functioning of a performance audit committee

78. The municipality did not appoint and budget for a performance audit committee, neither was another audit committee utilised as the performance audit committee.

APPRECIATION

79. The assistance rendered by the staff of the Mbhashe Local Municipality during the audit is sincerely appreciated.

Auditor-General

East London

30 January 2008



AUDITOR - GENERAL

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2008

	Note	2008	2007
		R	R
NET ASSETS AND LIABILITIES			
Net assets		92,357,749	66,698,243
Government grant reserve		9,652,509	9,652,509
Accumulated Surplus/(Deficit)		82,705,240	57,045,734
Non-current liabilities		-	-
Long-term liabilities	1	-	-
Current liabilities		52,836,036	8,043,599
Creditors	2	2,194,234	1,457,247
Unspent conditional grants and receipts	3	6,315,348	2,832,908
VAT	4	1,045,492	3,753,445
Current portion of long-term liabilities	1	-	-
Bank overdraft		-	-
<i>Total Net Assets and Liabilities</i>		<u>101,912,822</u>	<u>74,741,843</u>
ASSETS			
Non-current assets		63,910,603	53,569,844
Property, plant and equipment	5	63,910,603	53,569,844
Long-term receivables	6	-	-
Current assets		101,920,006	21,171,999
Consumer debtors	7	38,531	5,700,834
Other debtors	8	111,358	(2,342,392)
Current portion of long-term debtors	6	-	-
Bank balances and cash	9	37,852,331	17,813,557
<i>Total Assets</i>		<u>101,912,822</u>	<u>74,741,843</u>

STATEMENT OF FINANCIAL PERFORMANCE			
FOR THE YEAR ENDED 30th JUNE 2008			
	Note	2008	2007
		R	R
REVENUE			
Service charges	10	2,587,187	2,610,398
Rental of facilities and equipment		198,313	423,841
Interest earned - external investments		1,266,069	383,044
Government grants and subsidies	11	67,114,414	50,191,635
Other income	12	1,937,787	2,674,365
Gains on disposal of property, plant and equipment		-	-
Total Revenue		73,103,768	56,283,283
EXPENDITURE			
Employee related costs	13	13,537,865	20,899,628
Remuneration of Councillors	14	9,214,465	1,341,071
Bad debts		5,893,613	-
Collection costs			-
Depreciation		2,841,607	2,549,836
Repairs and maintenance		616,877	1,528,376
Interest paid	15	-	2
Contracted services	16	-	-
Grants and subsidies paid	17	4,614,228	2,607,011
General expenses		10,725,608	8,449,124
Loss on disposal of property, plant and equipment			-
Total Expenditure		47,444,261	37,375,047
SURPLUS/(DEFICIT) FOR THE YEAR		25,659,507	37,375,047

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2008

	Pre-GAMAP	Government	Accumulated	Total
	Old	Grant	Surplus/	
	Reserves	Reserve	(Deficit)	
	And			
	Funds			
	R	R	R	R
2007				
Balance at 1 July 2007	-	9,652,509	57,045,735	66,698,244
Surplus/(deficit) for the year			18,908,236	18,908 236
Capital grants used to purchase PPE		9,166,332	(9,166,332)	-
Disposals of PPE				-
Offsetting of depreciation				-
Balance at 30 June 2007/	-	9,652,509	57,045,735	66,698,244
2008				
			25,659,507	25,659,507
Surplus/(deficit) for the year				
Capital grants used to purchase PPE				-
Disposals of PPE				
Offsetting of depreciation				-
Balance at 30 June 2008	-	9,652,509	82,705,242	92,357,751

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008				
	Note	2008		2007
		R		R
CASH FLOW FROM OPERATING ACTIVITIES				
Cash receipts from ratepayers, government and other		77,500,002		68,581,662
Cash paid to suppliers and employees		(45,622,142)		(62,451,791)
Cash generated from/(utilised in) operations	20	31,877,860		6,129,871
Interest received		1,266,069		383,044
Interest paid		-		(2)
NET CASH FROM OPERATING ACTIVITIES		33,143,929		6,512,912
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(13,105,155)		(9,166,332)
Proceeds on disposal of property, plant and equipment		-		-
Decrease in non-current receivables		-		-
NET CASH FROM INVESTING ACTIVITIES		(13,105,155)		(9,166,332)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase/ (Decrease) in funds and reserves		-		7,696,582
NET CASH FROM FINANCING ACTIVITIES		-		7,696,582
NET DECREASE IN CASH AND CASH EQUIVALENTS		20,038,774		5,043,163
Cash and cash equivalents at the beginning of the year		17,813,557		12,770,394
Cash and cash equivalents at the end of the year	21	37,852,331		17,813,557

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, except for the revaluation of land and buildings, which are carried at fair value.

[First – time Implementation of GAMAP/GRAP]

In accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003), the Municipality has adopted Standards of GAMAP and GRAP issued by the Accounting Standards Board during the financial year. GAMAP and GRAP standards are fundamentally different to the fund accounting policies adopted in previous financial years. Comparative amounts have been restated retrospectively to the extent possible. The effect of the change in accounting policy arising from the implementation of GAMAP and GRAP is set out in Note 18.

The Municipality may have transactions, events or balances that are outside the ambit of GAMAP and GRAP but which are included in Standards of International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants – Public Sector Committee, International Accounting Standards (IAS) issued by the International Accounting Standards Board or Generally Accepted Accounting Practice issued by the South African Accounting Practices Board and the South African Institute of Chartered Accountants. The Municipality has not complied with the measurement, recognition and disclosure requirements of those accounting standards.

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

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

2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

4 GOVERNMENT GRANT RESERVE

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit)

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/ (deficit).

5 PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment, is stated at cost, less accumulated depreciation. Land is not depreciated as it is deemed to have an indefinite life. Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met. Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:-

	<u>Years</u>
Water infrastructure	25
Buildings	30
Motor Vehicles	5
Office equipment	3 - 7
Furniture and fittings	7-10

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

6 ACCOUNTS RECEIVABLES

Accounts receivables are carried at anticipated realizable value.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

7 TRADE CREDITORS

Trade creditors are stated at their nominal value.

8 REVENUE RECOGNITION

PROOF

Revenue is derived from a variety of sources which include Rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the Economic entity and these benefits can be measured reliably.

8.1 Revenue from Rates

Revenue from rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Interest on unpaid rates is recognised on a time proportionate basis.

A composite rating system charging different rate tariffs is employed.

8.2 Service Charges

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. The domestic charge is a fixed service charge and the business charge is based on the type of refuse bin and frequency of removal.

8.3 Fines

Income in respect of Traffic fines and summonses is recognised when received.

8.4 Rentals

Rentals are recognised on a time proportion basis.

8.5 Approved Tariff of Charges

Revenue arising from the approved tariff of charges is recognised when the relative service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

8.6 Interest on Investments

Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on the investment.

Interest earned on unutilised conditional grants is allocated directly to the Creditor: Unutilised Conditional Grants if the grant conditions indicate that interest is payable to the funder.

8.7 Sale of Goods

Revenue from the sale of goods is recognised when the risk is passed to the consumer.

8.8 Interest on Outstanding Debtors

Interest on outstanding debtors is recognised on a time proportionate basis and is charged on all outstanding debtors older than 30 days.

8.9 Donations and Contributions

Donations are recognised on a cash receipt basis or where the donation or contribution is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

8.10 Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

9 CONDITIONAL GRANTS AND RECEIPTS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

10 CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

11 RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

12 UNAUTHORISED EXPENDITURE

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

13 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

14 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

15 COMPARATIVE INFORMATION

15.1 Current year comparatives:

Budgeted amounts have been included in the annual financial statements for the current financial year only.

15.2 Prior year comparatives:

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

PROOF

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
1 LONG-TERM LIABILITIES		
Annuity Loans - DBSA	-	-
Less : Current portion transferred to current liabilities	-	-
Total External Loans	-	-
The Municipality has no external loans at present.		
2 CREDITORS		
Trade creditors	965,143	228,156
Payments received in advance		-
Staff leave	1,049,091	1,049,091
Provision for Performance Bonuses	180,000	180,000
Total Creditors	2,194,234	1,457,247
3 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
IGG Fund	2,248	2,248
IGG Fund	23,072	21,166
Housing Development	1 063 593	1,063,593
Pilot Housing	4577	4,577
Willowvalle Road	5455.94	5,064
IDP	83 903.31	77,069
Free Basic	276 449.03	260,657
Town Planning	400 197.68	341,459
Town Planning	450 378	450,378
Survey	193 283.24	177,173
Ntlonyane	1126902.51	1,064,019

	Equitable Share	3474.89		3,380
	Extension	31577.95		29,122
	Water Reticulation	6674		6,674
		2008		2007
		R		R
3	UNSPENT CONDITIONAL GRANTS AND RECEIPTS (continued)			
	IDP	114 363.07		104,745
	IDP	709 286.28		668,762
	FMG	644,443.31		175,104
	LGSETA	33046		33,046
	MIG	-		(2 453 750)
	MSIG	861 428		517,428
	Establishment of Ward Committee	280 995		280,995
	Total Unspent Conditional Grant	6,315,348		2,832,908
	Some of these amounts are not invested in a ring fenced investment until utilized.			
4	VAT			
	Vat payable	1,045,492		3,753,445
	VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.			
5	PROPERTY, PLANT AND EQUIPMENT			
	The reconciliation of carrying values is set out on the following page.			

5	PROPERTY, PLANT AND EQUIPMENT (continued)			
30 June 2008				
	Land and Buildings	Infra-structure	Other	
Reconciliation of Carrying Value	R	R	R	Total
				R
Carrying values at 1 July 2006	11,852,946	28,114,464	13,602,432	
<i>Cost</i>	12,474,655	24,690,352	19,199,588	46,953,348
<i>Correction of error</i>	-	-	-	-
<i>Accumulated depreciation</i>	(704,520)	(6,256,520)	(6,906,244)	(9,411,247)
<i>Additions</i>	-	12,847,952	257,202	9,166,332
<i>Capital under Construction</i>	-	-	-	-
<i>Depreciation</i>	(82,812)	(1,078,729)	(1,680,066)	(2,841,607)
<i>Disposals</i>	-	-	-	-
<i>Cost</i>	-	-	-	-
<i>Accumulated depreciation</i>	-	-	-	-
<i>Impairment losses</i>	-	-	-	-
<i>Other movements</i>	-	-	-	-
Carrying values At 30 June 2007	11,148,426	34,705,895	13,602,434	53,569,844
<i>Cost</i>	12,474,655	33,292,256	19,764,016	65,530,927
<i>Accumulated depreciation</i>	(704,520)	(6,256,520)	(6,906,244)	(9,411,247)

5 PROPERTY, PLANT AND EQUIPMENT (continued)				
30 June 2008				
	Land and Buildings	Infra-Structure	Other	Total
	R	R	R	R
Reconciliation of Carrying Value				
Carrying values	11,148,426	34,705,895	13,602,434	
At 1 July 2007				53,569,844
<i>Cost</i>	12,474,655	33,292,256	19,764,016	65,530,927
<i>Accumulated depreciation</i>	(704,520)	(6,256,520)	(6,906,244)	(9,411,247)
Additions	-	12,847,952	25,702	13,105,155
Capital under Construction				-
Depreciation	(82,811)	(1,078,729)	(1,680,066)	(2,841,607)
Disposals				-
<i>Cost</i>	-	-	-	-
<i>Accumulated depreciation</i>	-	-	-	-
Impairment losses	-	-	-	-
Other movements	-	-	-	-
Carrying values	11,148,426	34,705,895	7,381,363	
at 30 June 2008				53,235,685
<i>Cost</i>	11,852,947	40,962,417	14,287,607	67,102,971
<i>Correction of error</i>				
<i>Accumulated depreciation</i>	(704,520)	(6,256,520)	(6,906,244)	(13,867,284)
No assets of the Municipality have been used to secure the long-term liability of municipality.				

				2008		2007
				R		R
6	LONG-TERM RECEIVABLES					
	Car loans			-		-
	Less: Current portion transferred to current receivables			-		-
	Total			-		-
	CAR LOANS					
	Senior staff of the Municipality have no car loans.					
7	CONSUMER DEBTORS					
	As at 30 June 2007					
	Rates, Refuse, Water and Sanitation			6,457,641		6,226,332
	Provision for bad debts			(6,419,110)		(525,498)
	Total			38,531		5,700,834
	<u>Consumer Debtors: Ageing</u>					
	Current (0 – 30 days)			8,721		(474,309)
	31 - 60 Days			20,394		29,564
	61 - 90 Days			37,667		
	91 – 120 Days					
	121 - 365 Days			6,390,858		4,321,674
	+ 365 Days					
	Total			6,457,640		3,876,929
				2008		2007

		R	R
	<u>Reconciliation of the bad debts provision</u>		
	Balance at the beginning of the year	(525 498)	(525,498)
	Contribution to the provision	(5 893 613)	-
	Write-off of bad debts		-
	Reversal of provision		-
	Balance at end of the year	(6 419 111)	(525,498)
8	OTHER DEBTORS		
	Staff, Lease Debtors, Land sale and Other	(2,342,392)	(2,342,392)
	MIG	2,453,750	2,453,750
	Unauthorized expenditure (see Note 23.1)	-	-
	Fruitless and wasteful expenditure (see Note 23.2)	-	-
	Amathole Project Funds	-	13,962,610
	Total Other Debtors	111,358	(2,342,392)
9	BANK, CASH AND OVERDRAFT BALANCES		
	The Municipality has the following bank accounts: -		
	<u>Current Account (Primary Bank Account)</u>		
	Meeg Bank Limited - Dutywa Branch: Account Number: 40 4838 4454	2008	2007
		R	R
	Cash book balance at beginning of year	6,279,723	6,279,723
	Cash book balance at end of year	11,101,908	11,101,908
	Bank statement balance at beginning of year	14,499,569	4,730,885
	Bank statement balance at end of year	12,557,673	14,499,569

<u>Savings Account/ Investments Account</u>			
Meeg Bank Limited – Various Accounts			
Cash book balance at beginning of year		4,379,060	4,169,723
Cash Book balance at end of year		17,242,023	4,379,060
Bank statement balance at beginning of year		4,379,060	4,169,723
Bank statement balance at end of year		17,242,023	4,379,060
		2008	2007
First National Bank – Various Accounts		R	R
Cash book balance at beginning of year		642,319	642,319
Cash Book balance at end of year		642,319	642,319
Bank statement balance at beginning of year		642,319	642,319
Bank statement balance at end of year		642,319	642,319
Standard Bank Limited - Dutywa Branch: Various Accounts			
Cash book balance at beginning of year		1,686,335	1,678,628
Cash Book balance at end of year		1,709,324	1,686,335

	Bank statement balance at beginning of year		1,678,628		1,678,628
	Bank statement balance at end of year		1,709,324		1,678,628
10	SERVICE CHARGES				
	Rates, Refuse removals		2,587,187		5,700,834
	Total Service Charges		2,587,187		5,700,834
11	GOVERNMENT GRANTS AND SUBSIDIES		2008		2007
			R		R
	Equitable share		45 235 507		43,840,509
	Municipal System Improvement Grant (MSIG)		734 000		216,572
	Finance Management Grant (FMG)		1 000 000		347,468
	LG SETA		-		99,330
	Unknown Grants		3 212 410		-
	Municipal Infrastructure Grant (MIG)		16 932 497		5 428 750
	Establishment of Ward Committees		0		259,005
	Total Government Grant and Subsidies		67 114 414		50,191,634
	11.1 Equitable Share				
	The Equitable Share is an unconditional grant and is utilised to assist the local municipalities undertake service delivery.				
11	GOVERNMENT GRANTS AND SUBSIDIES (Continued)				
	11.2 Municipal System Improvement Grant				
	Balance unspent at beginning of year		517 428		-
	Current year receipts		734 000		734,000
	Conditions met - transferred to revenue		(390 000)		(216,572)
	Conditions still to be met – transferred to liabilities (see note 3)		861 428		517,428

	2008 R	2007 R
11.3 Finance Management Grant		
Balance unspent at beginning of year	175 104	22,572
Current year receipts	1 000 000	500,000
Conditions met - transferred to revenue	(530 660)	(347,468)
Conditions still to be met – transferred to liabilities (see note 6)	644,443	175,104
11.4 LG SETA		
Balance unspent at beginning of year	33 046	-
Current year receipts	132,376	-
Conditions met - transferred to revenue	(99,330)	-
Conditions still to be met - transferred to liabilities (see note 6)	33,046	33,046
11.5 Municipal Infrastructure Grant		
Balance unspent at beginning of year	2 067 651	-
Current year receipts	16 932 497	2,975,000
Conditions met - transferred to revenue	12 318 701	(907,349)
Conditions still to be met - transferred to liabilities (see note 6)	6 681 447	2,067,651
11.6 Establishment of Ward Committees		
Balance unspent at beginning of year	280 995	-
Current year receipts	0	540,000
Conditions met - transferred to revenue	0	(259,005)
Conditions still to be met - transferred to liabilities (see note 6)	280 995	280,995

11.7 Changes in levels of government grants				
	Based on the allocations set out in the Division of Revenue Act, (Act ...of 2007), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.			
12	OTHER INCOME			
	Admin, pond, License fees, fines, sundry and sale of land	1 937,787		2,674,365
	Recovery of unauthorised, irregular, fruitless and wasteful expenditure (Note 23)	-		-
	Total Other Income	1 937 787		2,674,365
13	EMPLOYEE RELATED COSTS			
	Employee related costs - Salaries and Wages	11 329 497		17 555 882
	Employee related costs - Contributions for UIF, pensions and medical aids	2 193 282		2 889 513
	Travel, motor car, accommodation, subsistence and other allowances			268 103
	Housing benefits and allowances	15 085		6130
	Overtime payments			-
	Performance bonus			180 000
	Total Employee Related Costs	13 537 865		20 075 628

		2008	2007
13	EMPLOYEE RELATED COSTS (continued)	R	R
	<i>Remuneration of the Municipal Manager</i>		
	Annual Remuneration	339 024	318 000
	Performance Bonuses	-	44 500
	Cellphone Allowance	22 016	12 000
	Car Allowance	96 000	96 000
	Contributions to UIF, Medical and Pension Funds	109 497	24 000
	Total	566 537	494 500
	<i>Remuneration of the Chief Finance Officer</i>		
	Annual Remuneration	271 219.20	290 000
	Other Allowances , Cell, Housing	24 000	0
	Performance Annual Bonus	0	27 100
	Car Allowance	84 000	84 000
	Contributions to UIF, Medical and Pension Funds	75 525.12	
	Total	454 744.32	401,100
	<i>Remuneration of Individual S.57 Employees(Managers)</i>		
		<u>Admin.</u>	<u>Technical</u>
		<u>& HR</u>	<u>Services</u>
		2008	2007
	30 June 2008	R	R
	Annual Remuneration	271 219	376 831
	Performance Bonuses	-	27 100
	Car Allowance	96 000	84 000
	Other Allowances	86 300	26 400
	Total	453 519	514 331

EMPLOYEE COSTS					
				LED	
	30 June 2008			Strategic	
	Annual Remuneration			271 219	349 736
	Performance Bonuses			0	27 100
	Car Allowance			78 000	84 000
	Other Allowances			102 809	26 400
	Total			452 028	487 236
14	REMUNERATION OF COUNCILLORS			2008	2007
				R	R
	Mayor			477 707	411 057
	Speaker			373 836	328 845
	Executive Committee Members – Full Time			350 472	169 560
	Councillors			0	431 609
				0	-
	Total Councillors' Remuneration			1 202 015	1 341 071
	<i>In-kind Benefits</i>				
	The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.				
				271 219	349 736
				0	27 100
				78 000	84 000
				102 809	26 400
				452 028	487 236
				2008	2007
	EMPLOYEE COSTS			R	R

15	ESTATE MANAGER							
	Annual Remuneration					222 000		
	Travelling Allowance					84 000		-
	Other Allowances					54 249		-
	Total Earnings					360 249		-
16	COMMUNITY SERVICES MANAGER							
	Annual Remuneration					216 000		
	Other Allowance					67 497		
	Travelling Allowance					78 000		
	Total Earnings					361 497		-
17	GRANTS AND SUBSIDIES PAID							
	Donations to local municipalities/ LED Projects							2 607 011
								2 607 011
18	NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008							
	The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GAMAP: -							
	18.1 Statutory Funds					2008		2007
	Balance previously reported: -					R		R
	Revolving Fund							486,177
	Loan redeemed and other capital receipts							127,429
	Total							613,606
	Implementation of GAMAP							
	Transferred to Accumulated Surplus/(Deficit) (see 18.5 below)							127,429
	Transferred to Government Grant Reserve							486,177
	Total							127,429

18	CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF GAMAP (Continued)				
	18.2 Provisions and Reserves				
	Balance previously reported				
	Balancing Government Grant Reserve			-	3,496,658
	Total			-	3,496,658
	Implementation of GAMAP				
	Transferred to Accumulated Surplus/(Deficit) (see 18.5 below)			-	3,496,658
				2008	2007
	18.3 Property, plant and equipment			R	R
	Balance previously reported				
	Implementation of GAMAP				
	Infrastructure previously not recorded credited to Accumulated Surplus/(Deficit) (see 26.7 below)			-	56,313,416
	Total			-	56,313,416
	18.4 Accumulated Depreciation				
	Balance previously reported				-
	Implementation of GAMAP				
	Backlog depreciation: Land and buildings			-	
	Backlog depreciation: Infrastructure			-	
	Backlog depreciation: Other			-	
	Total (debited to Accumulated Surplus/(Deficit)) (see 18.5 below)			-	
	18.5 Accumulated Surplus/(Deficit)			2008	2007
	Implementation of GAMAP			R	R
	Transferred from statutory funds (see 18.1 above)			-	
	Excessive provisions and reserves no longer permitted (see 18.2 above)			-	
	Fair value of Property, Plant and Equipment previously not recorded (see 18.3 above)			-	
	Backlog depreciation (see 18.4 above)			-	
	Total			-	

19	CORRECTION OF ERROR					
	During the year ended 30 June 2007, Municipality reversed an old balance of Amathole Projects Account which had been paid fully by Amathole District Municipality: -					
	The comparative amount has been restated as follows: -					
	Amathole Projects-					
	Loans Redeemed				-	
	Net effect on surplus/(deficit) for the year				-	
					2008	2007
20	CASH GENERATED BY OPERATIONS				R	R
	Surplus/(deficit) for the year				25,659,507	
	Adjustment for:-					
	Depreciation				2,841,607	
	Bad debts written off				5,979,894	
	Interest paid				-	
	Investment income				(1,266,069)	
	Operating surplus before working capital changes:				33,214,939	15,777,359
	(Increase)/decrease in debtors				(5,662,303)	(1,663,900)
	(Increase)/decrease in other debtors				2,453,750	-
	(Decrease)/increase in conditional grants and receipts				3,482,440	4,147,456
	Increase in creditors				736,987	-
	Increase in VAT				(2,707,953)	(1,477,317)
	Cash generated by/(utilised in) operations				31,877,860	16,783,598
21	CASH AND CASH EQUIVALENTS				2008	2007
					R	R
	Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position :					
	Bank balances and cash				37,852,331	17,782,545
	Bank overdrafts				-	-
	Total cash and cash equivalents				37,852,331	17,782,545

22	UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION					
	Long-term liabilities (see Note 1)			-		-
	Used to finance property, plant and equipment – at cost			-		-
	Sub- total			-		-
	Cash set aside for the repayment of long-term liabilities			-		-
	Cash required for repayment of long-term liabilities			-		-
	Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.					
23	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED					
				2008		2007
				R		R
	23.1 Unauthorised expenditure					
	Reconciliation of unauthorised expenditure					
	Opening balance			-		-
	Unauthorised expenditure current year			-		-
	Approved by Council or condoned			-		-
	Transfer to receivables for recovery (note 13)			-		-
	Unauthorised expenditure awaiting authorization			-		-
	Incident					
	<i>Unbudgeted expenditure - Municipality has no unbudgeted expenditure</i>					
				2008		2007
				R		R
23	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (continued)					
	23.2 Fruitless and wasteful expenditure					
	Reconciliation of fruitless and wasteful expenditure					
	Opening balance			-		-
	Fruitless and wasteful expenditure current year			-		-
	Condoned or written off by Council			-		-
	To be recovered – contingent asset (see note 46)			-		-

	Fruitless and wasteful expenditure awaiting condonement			-		-
	Incident					
	<i>Municipality has no breaches of any rules</i>					
				2008		2007
	<u>23.3 Irregular expenditure</u>			R		R
	Reconciliation of irregular expenditure					
	Opening balance			-		-
	Fruitless and wasteful expenditure current year			-		-
	Condoned or written off by Council			-		-
	Transfer to receivables for recovery – not condoned			-		-
	Irregular expenditure awaiting condonement			-		-
	Incident					
	<i>Municipality has no litigation against its employees.</i>					
				2008		2007
				R		R
24	ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT					
	<u>24.1 Contributions to organized local government</u>					
	Opening balance			-		-
	Council subscriptions			-		-
	Amount paid - current year			-		-
	Amount paid - previous years			-		-
	Balance unpaid (included in creditors)			-		-
24	ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)					
	<u>24.2 Audit fees</u>					
	Opening balance			-		-
	Current year audit fee			-		-

Amount paid - current year				-		
Amount paid - previous years				-		
Balance unpaid (included in creditors)				-		
				2008		2007
				R		R
<u>24.3 VAT</u>						
VAT inputs receivables and VAT outputs receivables are shown in note 4. All VAT returns have been submitted by the due date throughout the year.						
<u>24.4 PAYE and UIF</u>						
Opening balance				-		-
Current year payroll deductions				-		-
Amount paid - current year				-		-
Amount paid - previous years				-		-
Balance unpaid (included in creditors)				-		-
The balance represents PAYE and UIF deducted from the June 2007 payroll. These amounts were paid during July 2007.						
<u>24.5 Pension and Medical Aid Deductions</u>						
Opening balance				-		-
Current year payroll deductions and Council Contributions				-		-
Amount paid - current year				-		-
Amount paid - previous years				-		-
Balance unpaid (included in creditors)				-		-
				2008		2007
				R		R
<u>24.6 Non-Compliance with Chapter 11 of the Municipal Finance Management Act</u>						
The Municipality has developed a supply chain management policy.						

25	CAPITAL COMMITMENTS						
	Commitments in respect of capital expenditure:						
	- Approved and contracted for				-		-
	Infrastructure				-		-
	Other				-		-
	- Approved but not yet contracted for				-		-
	Infrastructure				-		-
	Other				-		-
	Total				-		-
	This expenditure will be financed from:						
	- Government Grants				-		-
					2008		2007
					R		R
26	RETIREMENT BENEFIT INFORMATION						
	All Councillors and employees belong to 2 defined benefit retirement funds administered by the Alexander Forbes and SAMWU Providend Fund.						
27	IN-KIND DONATIONS AND ASSISTANCE						
	The Municipality has not received any donations during the year.						
28	CONTINGENT LIABILITY						
	Claim for damages				-		-
	The Municipality is involved in legal dispute with Manager of Protection Services and Works Manager.						
29	COMPARISON WITH THE BUDGET						
	The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure D (1) and D (2).						

APPENDIX A

MBHASHE MUNICIPALITY: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2008

Category	Opening Balance	Additions	Under- Construction	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	Carrying Value
<i>Land and buildings</i>	11,852,946	0	0	0	11,852,946	621 708	82 811	0	704 502	11 148 426
Land	9 366 112				9 366 112				0	9 366 112
Municipal Buildings	2 486 834				2 486 834	621 708	82 811		704 502	1 782 314
<i>Infrastructure</i>	28 114 464	12 487 952	0	0	40 962 417	5,177,792	1,078,729	0	6,256,521	34,705,895
Infrastructure assets	28 114 464	12 487 952	0	0	40 962 417	5,177,792	1,078,729	0	6,256,521	34,705,895
<i>Other assets</i>	7 056 133	257 202	0	0	7 741 307	3 555 001	1 462 075	0	5 059 590	2 681 718
Computer equipment	867,327	128 788			996,115	768 551	316 362		1 127 427	-131 312
Furniture and fittings	433 598	128,414			989,984	427,973	133,783		561,756	428,229
Motor vehicles	4 359 609				4,359,609	1,786,423	871,922		2,658,345	1,701,264
Plant equipment	1 391 126				1 391 126	570 241	139 113		709 354	681 772
Mayoral Chain	4 473				4 473	1 813	895		2708	1 765
<i>Recreational Facilities</i>	6 546 301		0	0	6 546 301	1 628 662	217 992		1 846 654	4 699 646
Library Facilities	172 031				172 031	35 095				
Taxi Rank Development	598 843				598 843	149 711				
Community Halls	3 380 752				3 380 752	845 188				
Community Arts Centre	1 589 713				1 589 713	397 428				
Sports Facilities and Grounds	804 962				804 962	201 240				
Total	53 569 844	13 105 155	0	0	67 102 971	10 983 164	2 841 607	0	13 867 285	53 235 685

APPENDIX B

MBHASHE MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2008

Department	Opening Balance	Additions	Under-Construction	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	Carrying Value
Finance										
Human Resource & Admin										
Works										
Estate										
Protection										
LED										
Council										
Total										

APPENDIX C

MBHASHE MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED

30 JUNE 2008

2007				2008		
Revenue	Expenses	Surplus/ (Deficit)	Department	Revenue	Expenses	Surplus/ (Deficit)
R	R	R		R	R	R
51 761 881	6 640 022	45 121 859	Finance	73 103 768	13 622 722	59 481 046
-	20 222 811	(20 222 811)	Human Resource & Administration	-	15 432 379	(15 432 379)
-	2 636 690	(2 636 690)	Works	-	1 720 461	(1 720 461)
-	428 150	(428 150)	Estate	-	719 951	(719 951)
-	831 678	(831 678)	Protection	-	1 587 099	(1 587 099)
-	2 406 298	(2 406 298)	LED	-	3 564 385	(3 564 385)
-	4 029 396	(4 029 396)	Council	-	10 797 264	(10 797 264)
51 761 881	37 195 045	14 566 836	Total	73 103 768	47 444 261	25 659 507

APPENDIX D(1)

MBHASHE MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2008

	2008	2008	2008	2008	Explanation of Significant Variances
	Actual (R)	Budget (R)	Variance (R)	Variance (%)	greater than 10% versus Budget
Revenue					
Service charges	2,587,187	1,900,000	687,187	36%	
Roll over		6,620,749		100%	
Regional Services Levies – remuneration					
Rental of facilities and equipment	198,313	282,400	-84,087	-30%	
Interest earned - external investments	1,266,069	120,000	1,146,069	9,551%	
Government grants and subsidies	67,114,414	75,692,000	-8,577,586	-11%	
Other income	1,937,787	2,547,941	-610,154	-23%	
Gains on disposal of property, plant and equipment					
Total Revenue	73,103,768	87,163,090	-14,059,322	-16%	
Expenditure					
Finance	13 622 722	4,206,368	-9 416 354	-224%	
Human Resource and Administration	15 432 379	11,856,417	-3 575 962	-30%	
Works	1 720 461	40,913,300	39 192 839	96%	
Protection	719 951	6 586 332	5 866 381	89%	
Estate	1 587 099	6,674,921	5 087 822	76%	
LED	3 564 385	6,687,075	3 122 690	47%	
Council	10 797 264	10 238 676	558 588	-5%	
Total Expenditure	47 444 261	87,163,090	39 718 829	84%	
Surplus	25 659 507	-			

APPENDIX D(2)

MBHASHE MUNICIPALITY: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2007

	<u>2007</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>	Explanation of Significant Variances
	Actual	Under	Total	Budget	Variance	Variance	greater than 5% versus Budget
		Construction	Additions				
	R	R	R	R	R	%	
Finance							
Administration							
Works							
Protection							
Estate							
LED							
Council							
Total							

PROOF

APPENDIX E

MBHASHE MUNICIPALITY: DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant and Subsidies Received

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June	Sept			
LG SETA MIG MSIG FMG Establish Of Ward	MBH MUN MBH MUN MBH MUN MBH MUN MBH MUN															Yes / No	



FUNCTIONAL AREA AND SERVICE DELIVERY REPORTING

CHAPTER 5:



CHAPTER 5: FUNCTIONAL AREA AND SERVICE DELIVERY REPORTING

5 DEPARTMENTAL OVERVIEW

5.1 OFFICE OF THE MUNICIPAL MANAGER

The office of the municipal manager holds functions of transformation, diversity management, local economic development, tourism, Strategic Planning, Poverty alleviation, IDP management and Internal Audit.

MUNICIPAL MANAGER

Ms. Ms. C. Vusani

Objectives:

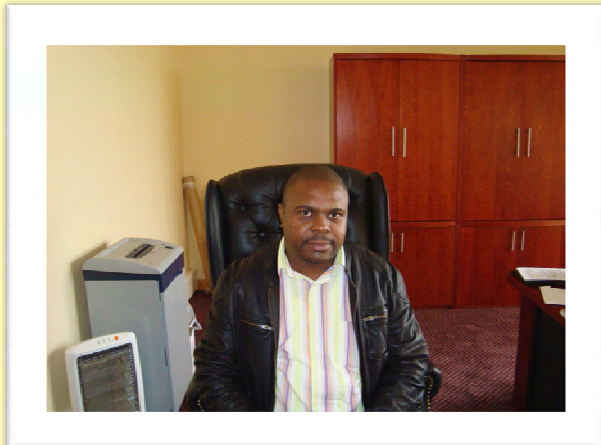
- To link, integrate and co-ordinate developmental plans;
- To align the municipality's resources (e.g. PMS) and capacity (e.g. budget) with the implementation of the development plans;
- To form the basis on which the budget must be prepared and expended; and
- To align municipal development with the district, provincial and national development plans that are binding on the municipality in terms of legislation.

Divisions:

The functions of IDP and strategic planning are combined with other functions within the office of the municipal manager, which encompasses:

- Strategic Planning
- Local Economic Development
- Tourism

5.2 STRATEGIC DEVELOPMENT AND PLANNING



STRATEGIC MANAGER

Mr. C.B. Mqingwana

The IDP and strategic planning is responsible for integration and coordination of municipal developmental planning in a manner that realises the needs and views of the community, and the rights to a safe and healthy environment, protection of property, housing, health care, food, water, social security and education.

Strategic planning has three divisions of development and planning, the division of development and planning is responsible for town planning, land use management system (LUMS), building control and billboards.

- Development and planning, responsible for:
 - Town planning
 - Land use management system
 - Housing provision and management
 - Building control
 - Marketing and Communications
 - Local Economic Development
 - Special Programmes