

INKWANCA LOCAL MUNICIPALITY

ANNUAL REPORT 2007/2008



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CHAPTER 1

INTRODUCTION & OVERVIEW

1.1 *Foreword by the Mayor*



His Worship, Cllr ME Yekani

It is indeed an honor to take this opportunity and once more reflect on the long and sometimes rough road that we travelled with the people of Inkwanca, including our stakeholders during the budget year 2007/08. In terms of municipal finance management act Municipalities are required, to inter alia, submit to council within six months an annual report for that financial year and Inkwanca municipality is no exception to this rule.

The failure by the council to comply with the provisions amounts to failure to account to our communities and our stakeholders. In this regard we must acknowledge that our failure to respond to the requirements of the act especially has greatly reduced or compromised our oversight responsibility.

It is therefore with this view that we have taken this step to redress the weakness of the past. We herein therefore commit ourselves to establish a culture of public discourse and accountability to our community and our stakeholders respectively. The following annual report will reflect on the performance of Inkwanca municipality for the year ended 2007/8. The report will seek to take along our communities and partners on a road of introspection wherein we examine our achievements and the challenges faced by our municipality during this period. In particular, the report focuses on service delivery and budget implementation, how we strived to promote good governance and accountability to our local communities.

It is noteworthy to state herein that during this financial year, our municipality was faced with major challenges, mass resignations by senior managers as a result of financial constraint, among others. In the light of the above, our municipality was then rendered ineffective, in a number of key functional areas, compromised service delivery standards.

Despite these challenges the municipality has made a significant progress in meeting some of the targets, as articulated in our IDP, the eradication of buckets system in the entire locality. We confidently say that our achievements to date have come at a price, we therefore salute the people of Inkwanca for their unwavering support and patience during these trying times. "Sithi maz' enethole".

We are happy to say, we have never deviated from our tradition of always seeking a fresh mandate from our communities. During this financial year, we have consulted widely and explored all avenues to give our stakeholders enough opportunity to contribute to the budget and the IDP. The establishment of area

committees and the involvement of youth formations, sport, farmer's union, Inkwanca Ratepayer's Association and NGOs bare testimony to that.

We want to reassure all our people and partners that we will work hard and cherish the vision we crafted together for this municipality, of giving equal opportunity, material and social upliftment of all our residents. We are quite certain that working together we can make this vision a success.

ME Yekani
Mayor

1.2. Overview of Inkwanca Local Municipality By the Municipal Manager:

Mr NA Ncube (below)



a) Geographic & Demographic Profile

The Inkwanca 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 administrative district.

The Inkwanca Municipality falls within the Chris Hani District Municipality and is bounded by the Tsolwana, Gariiep, Maletswai, Emalahleni and Lukhanji Municipalities. The N6 access road between Bloemfontein and East London/Port Elizabeth play an important link through the region. In addition, the R56 route through Sterkstroom and Molteno towards Middelburg is a further important roadlink. The area has a rich historical background dating back to the 18th century with a member of monuments and key places of interest.

Two distinctive areas are identified i.e. urban nodes and the rural hinterland.

The rural hinterland is characterized by a large commercialized farm land with large scale cattle, sheep, goat and game farming. The area is suitable for this type of agriculture given its harsh climatic conditions, rainfall and vegetation characteristics. The rural population comprises a small portion of the total population in the municipal area and most of the residents are urbanized with high proportional urban population figures.

The urban residential component of the municipal area is mainly concentrated in the two urban nodes:

- Molteno, including Nomonde, Molteno Town and Dennekruijn
- Sterkstroom, including Masakhe, Sterkstroom Town, Sonwabile and Hoffmansville

Demographic Data obtained from the Central Statistical Services (Census 2001).

→It is noted that the accuracy of the following figures can be debated. For instance, the total number of urban households is 6062 – in terms of municipal records and municipal planning. However, the figures below are used based on consistency and the fact that Government use these figures for grants and subsidy purposes.

□ Population/Age

Age	Rural	Molteno	Nomonde	Masakhe	Sterkstroom	Total
0-9	813	277	1786	1131	119	4127
10-19	552	400	2437	1542	219	5151
20-64	1908	803	4030	2422	417	9580
56+	135	177	563	430	85	1389
Total	3408	1657	8817	5525	840	20247

- Approximately 50% of the population is within the economic active group, aged 20 – 64.
- 17% of the population live in the rural area, indicating high level of urbanization.
- Molteno has the greatest population concentration, comprising approximately 50% of the total population or 10474.

□ Family Composition

	Families	Population
Rural	1148	3408
Molteno	2569	10474
Sterkstroom	1758	6365
Total	5475	20247

- Total of 5475 families reside in the municipal area.
- This constitutes an average family size of approximately 4 persons.
- Molteno represents the highest family sizes in the municipal area with the rural area the lowest at approximately 3 persons per family.
- Population distribution between the urban and rural area clearly demonstrates high level of urbanization and high level of commercial farming activities.

b) Socio-economic Profile

Economic Activity	Total
Employment	3057
Unemployment	4242
Home-maker or housewife	316
Unable to work due to illness or disability	731
Does not choose to work	543
Not applicable (younger than 15 and older than 65)	11357
Total	20245

- Very high levels of unemployment (as much as 60%).
- Declining economic profile which is evident throughout the district.

- Human development index: 0, 47, i.e. one of the lowest in the district.
- 69,9% of population living within poverty bracket

Economic Sector	Total
Agriculture and hunting	39.2
Manufacturing	4.4
Construction	5.3
Wholesale and retail trade	11.2
Transport, storage and communication	1,4
Financial, insurance, real estate and business services	3.6
Community, social and personal services	17,9
Other	2,0
Private households	15,0
Total	100

- Agriculture and hunting represents by far the biggest sector and employer in the municipal area.
- Community, social and personal services second highest employer.
- High level of employment in agriculture industry demonstrates vulnerability of the study area's economy, with specific reference to droughts and impacts on the commercial farming industry.

Income (Annual/Household)

No Income	R1 – R9 600	R9 601 – R38 400	> R38 401	Grand Total
1,127	2,324	1,518	508	5,477

- 20% of families have no income.
- 62% of families have no income or an income below R10 000 per annum.
- The economic analysis indicates high levels of dependency on subsidies and possible subsistence farming initiatives.
- Low economic growth and high levels of unemployment increase dependants on state funded projects, with specific reference to housing.

The grim economic situation of the Municipality is further exacerbated by the fact that there is an extremely high dependency ratio with an average of 1:6 per household.

Major Economic Sectors

The major economic sectors making a meaningful contribution to the Municipality's economy are predominantly stock farming and manufacturing to a lesser degree. Agro development constitutes the largest portion of economic activity with the largest number of employed persons working on farms. INKWANCA has vast land available, but the area is dry and very rocky discounting the feasibility of crop production in high volumes.

The manufacturing sector is dominated by Nola (being and "Ouma rusk" manufacturing concern) and the Stormberg Organic Farms manufacturing biltong.

There has been a notably decline in the development of these sectors over the years.

1.3 Executive Summary

In this report our intention is to provide an overview of Inkwanca local Municipality, our wish is to reflect on the service delivery environment, our targets, and the measurable performance objectives as laid down in the municipality's service delivery and budget implementation plan (SDBIP) for the financial year 2007/2008. The challenges encountered by the municipality during period are merely mentioned to take the reader along with us into a journey of discovery. In our view these challenges have assisted us to create a platform or measure of standard against which to date we can measure our level of achievement.

In spite of these challenges, we are convinced that our municipality has met its service delivery targets albeit budgetary constraints, high staff turnover, an weak revenue base which is eroded by a high rate of indigency in our community, high unemployment, high poverty rate, non-existent economic base, and so forth.

Our confidence to date is that in spite of these challenges, the municipality has managed to meet its service delivery targets given the identified priorities, and public expectations. Our main focus remains to maximize and meet the developmental needs of our community. For the past financial year we have set ourselves milestones, that is, the key deliverables, as reflected in the integrated development plan (IDP), and the Local economic development strategy (LED). Indeed, the financial year 2007/2008 has been a turning point in the history of this municipality. The municipality has been challenged on a number of fronts, these include managing a shoe string budget and achieving our targets being mindful of the need to maintain established standards. Inkwanca local Municipality has for the year under review set out the following objectives, which we have achieved amid challenges, which remains among others the desire to change the lives of our people for the better.

- To provide quality and affordable services to all the communities of Inkwanca.
- To develop strategies which enabled us to manage resources efficiently and effectively.
- To develop strategies and programmes to promote social and local economic development.
- To put in place process where communities are encouraged to participate directly in the planning of their own development.
- To build new and maintain infrastructure to support service delivery, social development and economic growth.

- To ensure good governance within the municipality (transparency, public accountability, access to information, administrative justice and responsiveness to complaints).
- To develop and maintain good relationships with provincial and national government spheres so that there is an understanding at these levels of government of the needs and requirements of the municipality; and that funding is allocated to development projects of our municipality.
- To develop human resource capital that will respond to challenges facing our municipality.

The above objectives were divided into five key performance areas being:

- Institutional transformation: Systems development, Organo-gram review, staff capacity and skills retention.
- Infrastructure and Basic Services: water provision, sanitation, electricity provision, roads and storm water refuse removal, parks and public places as the indicators of our performance.
- Local economic Development: facilitate land availability; ensuring a clean and safe environment; creation of a growing sustainable economic development sector; creating a growing and sustainable tourism environment, SMME Development,
- Finance: Debt collection, revenue management, supply chain management, asset management, budget processes
- Good Governance: Communication, Customer care, accountability, Auditing (financial & performance) and responsiveness governance.

Institutional transformation

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 123 have been filled and 62 are vacant and not funded.

The biggest challenge is staff turnover – it is at its all time highest. By the end of the financial year all three Section 57 managers (Chief Financial Officer, and the Manager for Technical Services and Community Services Manager) had resigned. They found employment in other municipalities bigger than Inkwanca LM. The council has tried to persuade and impress on them to stay, but to no avail. The Communications Officer left also sighting personal reasons. The loss of such expertise and experience meant that we have to start from scratch, recruit and fill those vacant positions with less experienced persons. 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.

The municipality is yet to review its organizational structure to be in line with our powers and functions; and so that it talk to our vision as well as resources at our disposal. It has transpired in the recent past that the current structure is unworkable due to various reasons chief among them being lack of financial resources to attract suitable candidates. The leadership vacuum creates an operational risk to the Municipality as the Municipal Manager may not be able to get involved to the day to day operational issues and thus exposing the municipality to potential operational inefficiencies.

After the opening of a traffic Section in 2006/07 - we took a conscious decision to select young people to be trained as qualified Traffic Officers .We are proud that such an investment in human capital is beginning to bear fruit. We can say the Section is now full functional, it is providing the following services in addition to Traffic Law enforcement:

- Learner's Licence
- Renewal of Driver's Licence, and
- Public Driver's Permit (for Passengers & Goods)

Infrastructure & Services

We have managed to meet the national target for both water and electricity. We have taken giant strides in improving the lives of our people by providing clean water to all the residents of Inkwanca. Today all Inkwanca residents have access to clean water and the furthest tap from the house is not more than 50m from the doorstep. All urban households are getting Free Basic water – the number now stands at 6062 which is an increase of 144 from the previous year. Water quality has improved and we do conduct tests monthly.

As we have pointed out sanitation has been one of the areas of focus for this municipality and we are glad to report that about 100% of the households in the urban areas of Inkwanca have access to water bourne sewerage, this includes residents leaving in squatter camp area of 'eZimbacwini'. To date the number of households receiving free basic sanitation has increased from 2498 in June 2007 to 2618 in June 2008.

The number of people receiving Free Basic Electricity has increased from 773 at the end of 30 June 2007 to 979 by 30th June 2008. The only area that still gives us headaches in electricity provision is Zola, which is under Eskom area of supply.

As stated in the Annual Report 2006/07 regarding the condition of our roads and stormwater *“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. 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.”*

Despite difficulties, we have managed to implement the Masakhe Roads and Stormwater Project. The project is towards its completion. There are snags and issues around finalization that must be attended to.

We are also proud to report that despite challenges our municipality was awarded the Eastern Cape Provincial Cleanest Town Award for 2007. The awarded came with R200 000 prize. We are grateful to all of you as residents, as councilors & as municipal employees for the support and special efforts you have put to ensure that we succeed.

Local Economic Development

During 2007/2008 there has been no new LED Projects. The council took a conscious decision not to embark on new projects, instead ensure that the existing projects are consolidated and yield the intended results. Through Thina Sinako we have secured funding from the European Union for capacity building for our LED unit. The project is being implemented in partnership with Intsika Yethu Municipality.

Financial Viability

The departure of the CFO Mr Z Mrwebi had a very negative bearing of the municipal financial status more especially on the quality of the Annual Financial Statements. He left on the 31st of August 2007, the very day AFS had to be submitted to the Office of the Auditor-General. He was therefore not available to assist during the time of auditing. We have reflected on this matter extensively in the 2006/2007 ANNUAL REPORT.

At the end of 2006/07 financial year we reported that the debt owed to the municipality by residents was “growing by R700 000 (over seven hundred thousand Rands) per month”. Little did change during the year under review, in fact the situation got worse.

We closed the year on very sad state of financial affairs – with the municipality’s inability to meet its financial obligations – a financial crisis. National Treasury, Provincial Treasury, Department of Local Government and Traditional Affairs, and Chris Hani District were informed of our situation. As we close the year, the municipality in conjunction with the stakeholders mentioned above have embarked on coming up with a Financial Recovery Plan to turn around the current financial situation. The financial problems not only affected the viability of this municipality, but threw into disarray the entire municipality’s annual programme for service delivery.

Good Governance

Since this municipality does not have Wards, in order to enhance public participation the council resolved way back in Sept 2006 to establish Area Committees, and 11 Area committees have been established thus far. As we close the year, we have agreed to streamline the work of these committees and re-align them in terms of size, proximity and functionality. For the 2008/2009 their number has been reduced to eight (8). We are also pleased to state that, in addition to the Area Committees, there are 33 organisations/formations registered in our database. These structures also participate in our IDP Representative Forum and the Budget Processes. 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 municipality.

Together with Inxuba Yethemba, Tsolwana municipalities, and with assistance of Chris Hani DM, we have finally established an Audit Committee to service the three municipalities. The exercise has taken along time due to scarcity of people with requisite skills to serve on such a committee. For the internal audit function, we still awaits a formal reply from DM as we have requested the assistance of their Audit unit.

Conclusion

In conclusion, we believe that we are still on course in the pursuance of our vision even though not all our objectives have been attained. The conferment of the Provincial Cleanest Town Award for 2007 to this municipality, attest to our resolve and commitment to ensure that every single resident has access to quality and affordable services. We concede that 2007/2008 has been a very testing year, more especially, in our quest to ensure a financial viable municipality. Our optimism remains very high - that the current state of municipal finances can be turned around for the better.

CHAPTER 2

SERVICE DELIVERY PERFORMANCE HIGHLIGHTS



Mr A Koos (above) Technical Services Manager joined the municipality midway through the financial year.

2.1 WATER SERVICES

a. Water services delivery strategy and main actors:

It is important to mention herein that, even though Inkwanca Local Municipality provides and manages the provision of water and sanitation, legally these functions are now the responsibility of the district municipality, in our case these functions are now the responsibility of the Chris Hani District Municipality. However, Inkwanca local municipality continues to provide these services on an agency basis, that is, an agreement exist where Inkwanca provides and manages this function on behalf of the district municipality, wherein the district municipality is the water services authority and the local municipality plays the role of a water and sanitation service provider. In a nut shell, these services are funded through the budget and direct allocation of the CHDM, this included planning and development.



Every yard has a standpipe inside with clean (purified)water.

The municipality has the following water sources:

- a. 6 boreholes
- b. Carnavon Dam
- c. Molteno Dam and
- d. Jubilee Dam

b. Level and standard in water services

We have managed to meet the national target for water and also have taken giant strides in improving the lives of our people by providing clean water to all the residents of Inkwanca. Currently all residents have access to clean water and the furthest tap from the house is 50 m away from the doorstep. All house holds of about 6062 are getting free basic water. This figure has increased by 144 from the previous year. Water quality has improved and we do conduct tests monthly.

c. Annual performance as per key performance indicator in water services

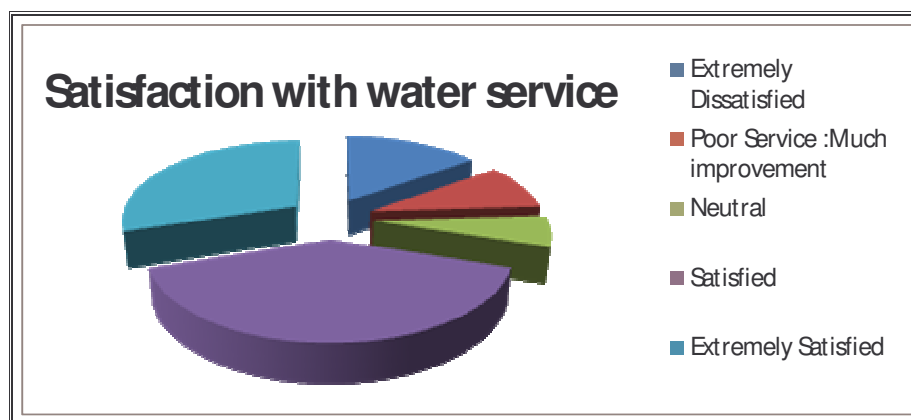
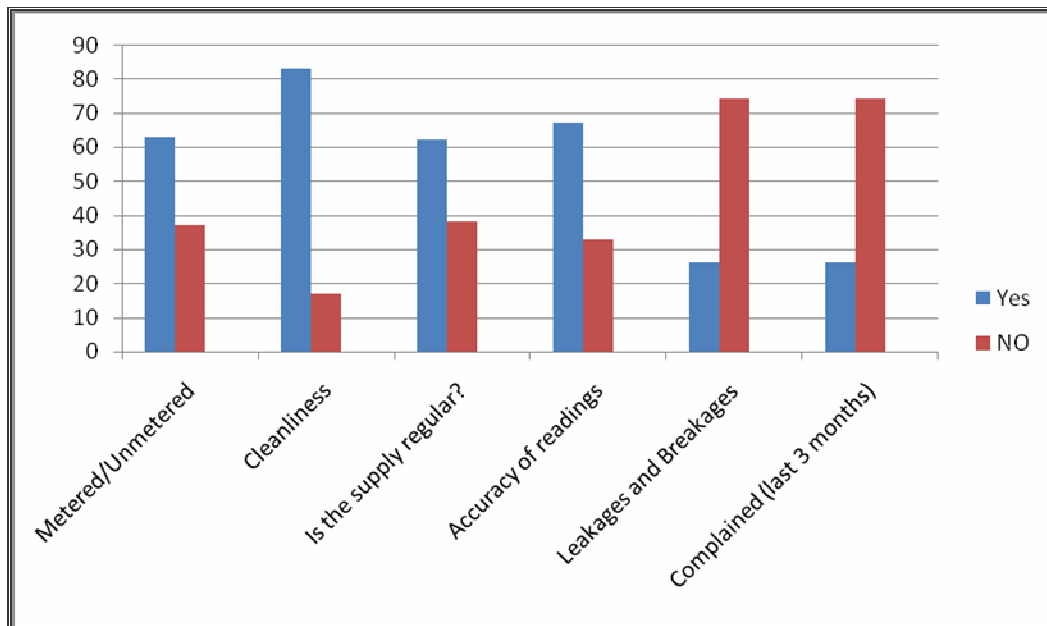
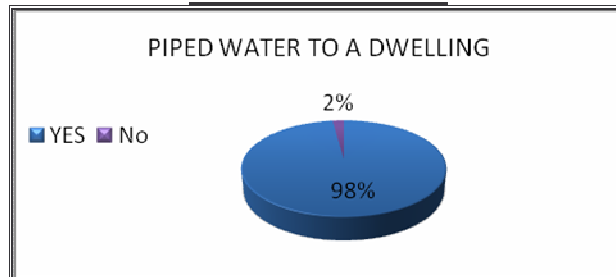
	Indicator name	Target set the year (number of house hold)	Achievement level during the year (number of households)	Achievement percentage during the year	Overall achievement rate including previous years.
1	Percentage of Households with access to water services	6062	6062	100%	100%
2	Percentage of Households with access to basic water services	6062	6062	100%	100%
3	Percentage of indigent households with access to basic free water services	2270	2270	100%	100%
4	Percentage of clinic with access to water services	4	4	100%	100%
5	Percentage of house holds using bucket	0	0	0%	0%
6	Percentage of school with access to water services	9	9	100%	100%

d. Challenges & Remedial actions:

The main challenge that we are faced with as the municipality relates to capacity which translates to both resources and personnel. Firstly, the current capacity of our Water Purification Plant in Molteno, is only able to maintain the current population, any future developments will therefore require the augmentation of such capacity. Secondly, we make use of general workers for operating water treatment. There are no qualified people with the necessary skills to provide the service. For water testing an example, we rely on service providers. The results usually take a week to be received by the municipality.

Another challenge is in Water demand management area. We need to install bulk water meters to be able to calculate the amount of water used in each area, in order to determine which areas consume a lot of water.

WATER SERVICES



2.2 ELECTRICITY SERVICES

a. Electricity services delivery strategy and main actor

The municipality has three main objectives with regard to electricity services. Firstly, to ensure that all households have access to the electricity. Secondly, to ensure that communities have appropriate street lights. Lastly, to provide free basic electricity to the indigent people. We have done this through:

- Electrification of all new households; and
- Identification of beneficiaries for free basic electricity.

b. level and standard in electrical services

The number of people receiving free basic electricity has increased from 773 at the end of 30 June 2007 to 979 by 30 June 2008. The only area that is still our concern is one of township in Sterkstroom which is an Eskom area in need of only 9 connections.

c. Annual performance as per key performance indicator in electrical services

	Indicator name	Target set the year (number of house hold)	Achievement level during the year (number of households)	Achievement percentage during the year	Overall achievement rate including previous years.
1	Percentage of Households with access to electricity services	6062	6053	99%	80%
2	Percentage of Households with access to basic electricity services	6062	6053	99%	80%
3	Percentage of indigent households with access to basic free electrical services	2270	979	40%	40%

d. Challenges & Remedial actions:

The rendering of this service is negatively affected by the following challenges:

- Ageing, old and dilapidated infrastructure which makes it impossible to repair. Most of the street lights, substations and entire electricity reticulation need urgent refurbishment.

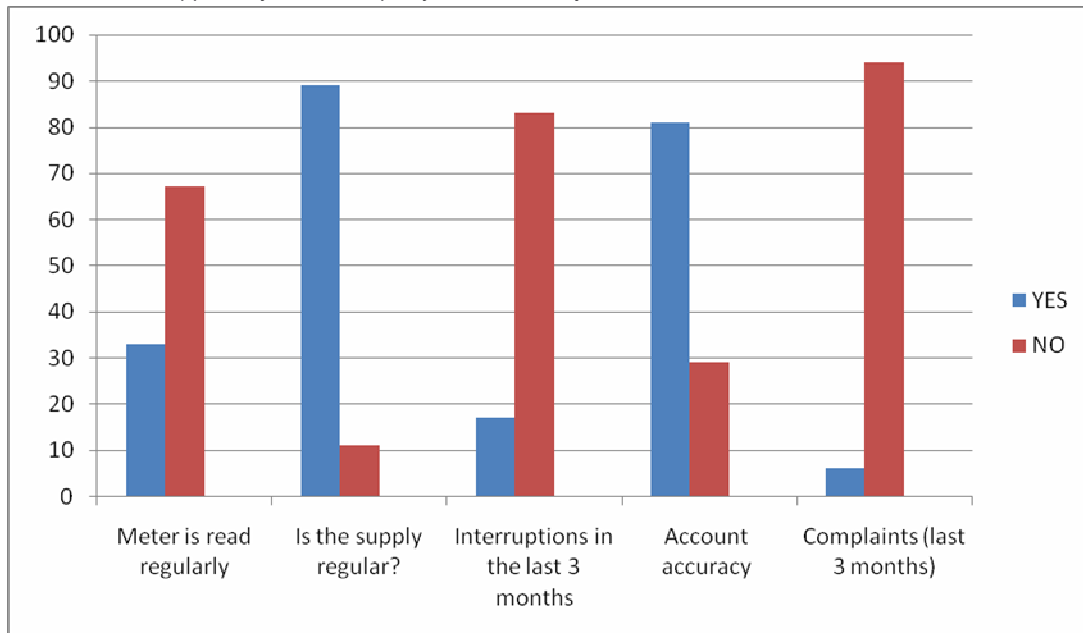
- Load shedding by Eskom during the first half of 2008 has resulted in revenue losses. As we begin 2008/2009, we had to increase our Electricity tariffs by 32% based on Eskom's electricity increases.
- The municipality also suffers from electricity losses due to theft. This in turn has affected our revenue base tremendously.
- The current MIG policies does not provide allocation for maintenance, the concentration is on building new infrastructure.

The municipality has put up a Plan of action to increase our collection base for us to do our repairs and maintenance.

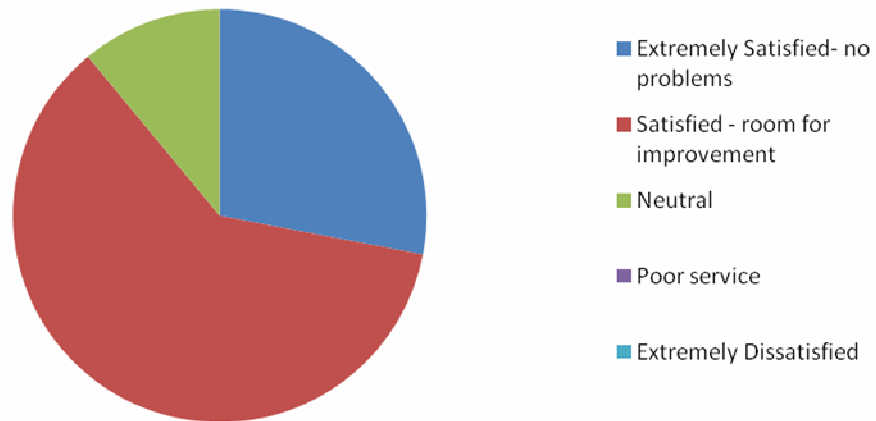
The Council has committed itself to develop an infrastructure maintenance plan, during 2008/2009 in order to ensure that the existing infrastructure is maintained and not to just continue building infrastructure with no plan in place for its sustainability.

The community survey results reveal that:

51 percent of respondents receive their electricity supply from the municipality, while 49% from directly from Eskom. Those supplied by the municipality had this to say:



Satisfaction with Electricity supply by the municipality



2.3 SANITATION SERVICES

a. Sanitation services delivery strategy and main actor

Our main challenge to date remains to keep the momentum and to fast track bucket eradication in our municipality. However, while we have remained focused on the overall objective to address all sanitation backlogs, our main challenge has been to increase capacity in our oxidation ponds to accommodate and keep pace with future developments. Our greatest handicap to date revolves around the legal status of the municipality. According to the current arrangements, Inkwanca local municipality is not a sanitation service authority, this function is the responsibility of the district municipality. In the scheme of things the municipality is merely a service provider, our role is limited to monitoring and maintenance. The initial powers and functions reside with Chris Hani District municipality as a water and sanitation service authority in our area, as well as the Department of water affairs and forestry. In this instance Inkwanca can only recommend new projects, and wait for the powers that be to plan and fund implementation thereof.

b. level and standard in sanitation services

Sanitation has been one the areas of focus for this municipality and we are glad to report about 100% of the households in the urban areas of Inkwanca have access to waterborne sewerage system.

To date number of households receiving free basic sanitation has increased from 2498 in June 2007 to 2770 in June 2008.

We have the following on sanitation services

- One treatment works
- Five pump stations

c. Annual performance as per key performance indicator in sanitation services

	Indicator name	Target set the year (number of house hold)	Achievement level during the year (number of households)	Achievement percentage during the year	Overall achievement rate including previous years.
1	Percentage of Households with access to sanitation services	6062	6062	100%	100%
2	Percentage of indigent households with access to basic free sanitation services	2270	2270	100%	100%
3	Percentage of clinics with access to sanitation services	4	4	100%	100%
4	Percentage of school with access to sanitation services	9	9	100%	100%

d. Challenges & Remedial actions:

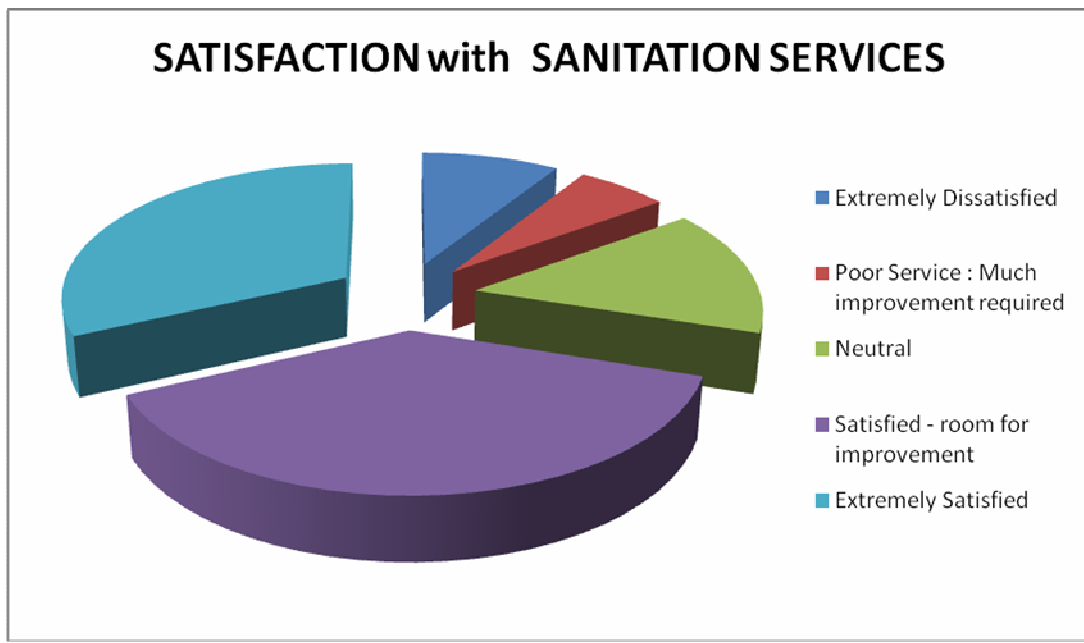
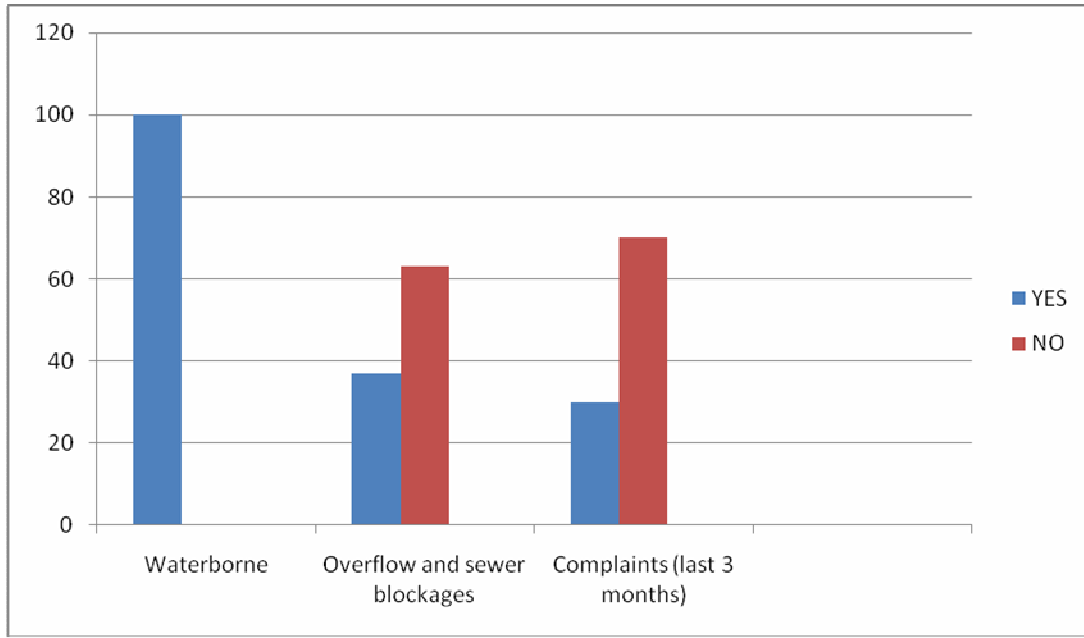
The municipality has met the national target for bucket eradication. The oxidation ponds were designed to carry less capacity, but now with bucket eradication it means all households use waterborne system. As a result, the oxidation ponds need to be upgraded also for future developments.

The main sewer line at Phumlani Section Nomonde Township, (about 600m) because of its size, is not suitable for current volumes- we have therefore planned to replace by a much bigger size.

Upgrading of Molteno Oxidation ponds project is identified on the IDP on this financial year. It planned to be implemented in the 08/09 financial year so it can be able to accommodate the future developments as well.

The municipality will development an infrastructure maintenance plan for the coming financial years.

A project has been identified on this years IDP for us to be able to register the project on MIG and so the district can implement this project on our behalf.



2.4 ROADS AND STORMWATER

a. Roads maintenance service delivery strategy and main actors

Our mission is to build and maintain a viable roads network in our municipality. To us roads are a means to facilitate access to key strategic areas in our community, and to continue improve on the

quality of local life. We are fully committed build new infrastructure in accordance observed standards, while we strive to maintain existing roads, our budget for the financial year ended 2007/2008 bears testimony to this desire. We are also mindful of the fact that the life span of our roads is only guaranteed through a well planned and maintained storm–water system. Therefore, flooding of the roads is considered to be the major threat to community investment. In this regard, roads and storm-water is one of our major assets, as such our main strategy is to protect and prolong their life span to benefit future generations and meet future demand.

b. level and standard in roads maintenance

The municipality is not doing well in this area; we don't have roads construction equipment like graders and roller. As a result we rely on service providers to assist us with roads construction and maintenance. The condition of the roads and the storm water 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 failing drainage system and poor roads conditions is extremely high and represent a major drain on the municipality's limited resources.

Despite difficulties we have manager to implement the Masakhe roads and storm water project. The project is towards completion. There are snags and issues around finalization that must be attended to.

Chris Hani DM had challenges regarding the implementation of Phase 2 of Molteno Roads and storm water. The main challenge was that funds available were only a fraction of what contractors tendered for (CHDM budget R3.5 million and the lowest tenders was R14,8 million). It took some serious engagements of both the DM, Inkwanca LM, the consultants and the contractor to resolve the issue. A contractor was appointed at R8.4 millions.

c. Annual performance as per key performance indicator in roads services

	Indicator name	Target set for the year	Achievement level during the year	Achievement percentage during the year	Overall achievement rate including previous years.
1	Percentage of Households with out access to gravel or graded roads	0	0	100%	90%
2	Percentage of roads infrastructure requiring upgrade in km.	1032	4	0.3 %	1.3%
3	Percentage of roads infrastructure actually constructed in km.	4	4	100%	1.3
	Percentage of capital budget reserved for upgrading and				

4

maintenance in rands.

12 million

2.6 millions

0.00002%

1%

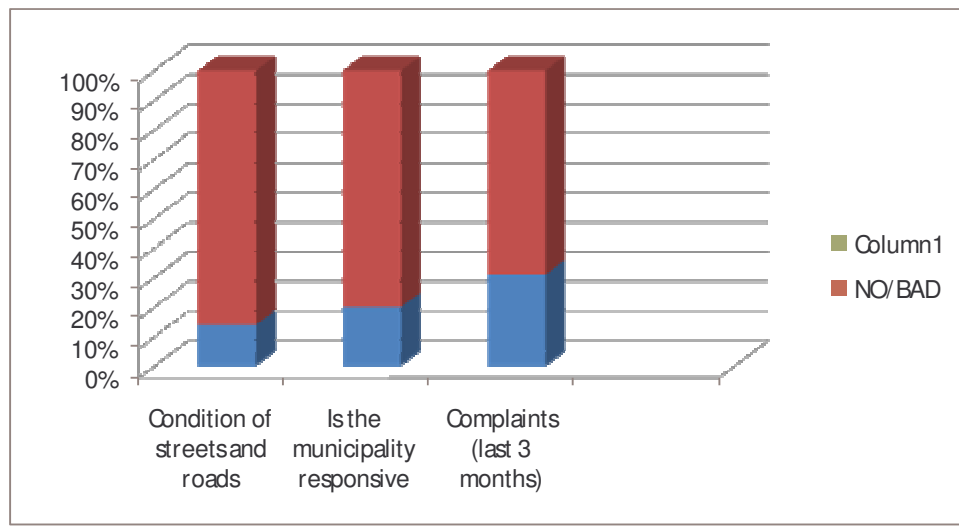
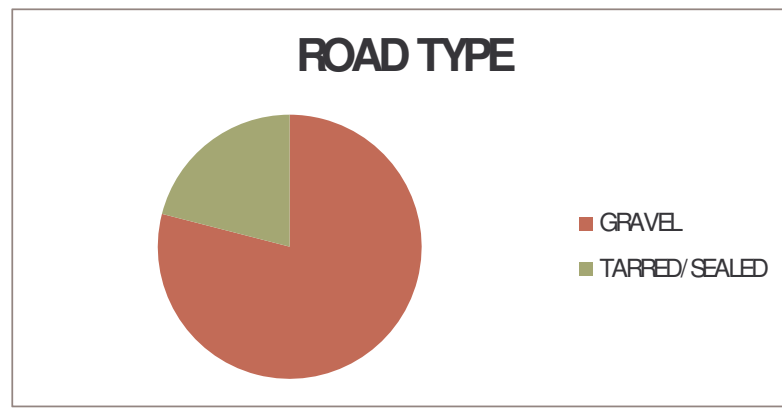
d. Challenges and Remedial actions

The municipality on this regard lacks resources, both machinery and personnel. There are no graders or rollers. We rely on service providers for the gravelling of our roads and storm water system.

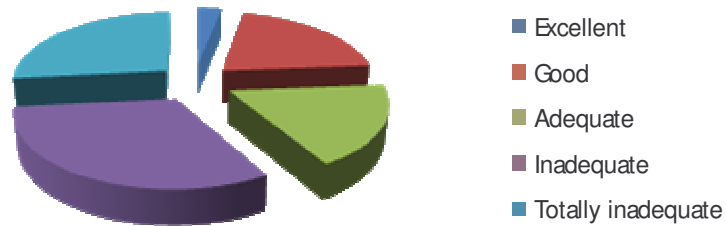
Due to its small revenue base, we cannot afford such machinery hence most our roads are not properly maintained because of capacity and machinery.

The municipality is currently hiring outside services providers to assist.

STREETS, ROADS AND PAVEMENTS



Condition of Roads, Streets, Pavements & Stormwater



2.5 WASTE MANAGEMENT SERVICES

a. The Actors in Waste Management.



Earlier on in this report on housing we have already alluded to the challenges as a result of housing and the related developments. Housing, the planning thereof is not limited to the actual brick and mortar structure, but in our view it goes beyond building, but extends to planning service delivery, securing of the necessary support infrastructure, including human and financial capital. The function entails the purchasing of Landfill sites and securing permits to operate the facility; the financing and purchasing of suitable vehicles and machinery to deliver on the service; the hiring of qualified personnel to operate the vehicles and machinery. The building and maintenance of access roads to the land fill site. This also extends to financing training and skills development, to ensure that the municipality is able to meet and satisfy statutory requirements and standards as stipulated by the department of environmental affairs.

The Municipality delivers services in the towns of Molteno and Sterkstroom. The domestic waste in both towns is collected on a weekly basis while the business waste collection frequency depends on the nature of the waste. Organic decomposable waste is collected more frequently, up to 5 times a week.



The Municipality employed casual workers, funded by the Chris Hani District Municipality to clean some of the residential areas when needed. The Molteno and Sterkstroom CBD's streets are swept and cleansed on a daily basis by the use of permanently employed workers. The road reserves and open areas within the residential areas are cleaned on a weekly basis. The waste is disposed off in black plastic bags that are provided by the Municipality. We currently have 22 permanent general workers. Because of financial constraints we have been employing people on contract basis to complement the Staff shortage.

We have designed a simple and easy-to-follow HOUSEHOLD & GARDEN REFUSE SCHEDULE for both towns, for instance in Sterkstroom:

- Mondays: Town
- Tuesdays: Sonwabile
- Wednesday: Zwelitsha, Delta and Safari
- Thursday: Zola Mqeshi
- Fridays: Old Location

The main actors are the Municipality employees and the members of the Community. The members of the Community have embarked on iron and zinc recycling business and this has contributed immensely to our Municipality in terms of waste minimization. There are currently no formal recycling activities because of relatively small amounts of waste available for recycling.

There are members of the Community who have an initiative to contribute in waste minimization efforts by adopting certain portions of the land and converting them into public parks. The District Municipality is also playing a major role in assisting the Municipality and waste management programs.

b. **Level and Standards of waste management services**



Mayor Yekani and municipal workers delivering refuse bins to residents of Nkululeko, July 2007

The waste generated at Molteno and Sterkstroom is disposed off at the local landfill sites situated in close proximity to the two towns. The number of rural areas in the Municipality generates very limited waste and almost no waste was apparent throughout the rural areas.

Our Municipality won the Eastern Cape Cleanest Town Competition and we received R200 000-00 during the period under review.

c. Annual performance as per key performance indicators.

Indicator name	Targets set for the year	Achievement level during the year (number of households)	Achievement percentage during the year	Overall achievement rate including previous years
1. Percentage of Households with access to refuse removal services	6062	6062	100%	100%
2. Existence of LM Waste Management Plan	Yes (since 2005)			
Percentage of municipal landfills in compliance with Environmental Conservation Act	2	2	100%	100%

d. Challenges & Remedial actions

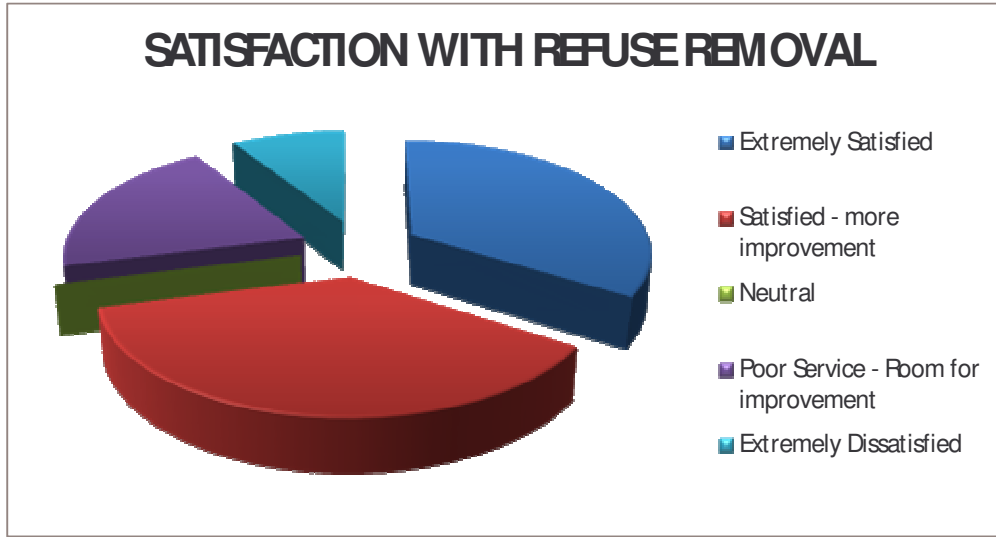
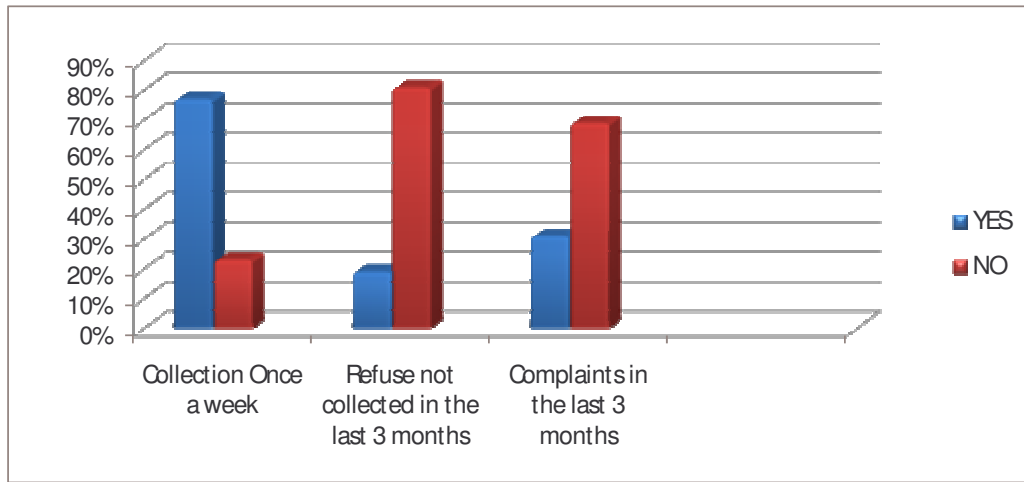
The council resolved in 1995 to eradicate informal settlements in and around the towns of Molteno and Sterkstroom. Our mission was and still to ensure that every family has a roof over their heads by the year 2014. Over the years the municipality has taken strides to fast-track low income housing delivery, thus far we have met our targets. This development has resulted in increased demand for municipal services. It is important to note herein that this development did necessarily translate into a positive impact on our revenue base. In our overview we have already mentioned that, our area is a characterized by a high rate of unemployment, it is estimated that between seventy two(72) and eighty (80) percent of the households in Inkwanca are considered indigent.

Source: Inkwanca Local Municipality indigent register 2006/2007.

The council policy on free basic services continues to guide and is the driving force behind our actions. We have already mentioned herein that, the combination of the weak revenue base, and the high rate of indigency, our municipality is seriously challenge on the labour front. As a consequence, the department of community services is grossly

understaffed. Amidst these handicaps we have been able and continue to provide free basis services to all our deserving households. At times we have employed temporal workers to alleviate pressure on our workforce. It is thus timely for us to acknowledge and extend our appreciation to the people of Molteno and Sterkstroom for their patience and support in our campaigns to keep our towns clean. Our appreciation is also extended to the CHDM for their financial and material support, especially their participation in the "Cleanup Campaign". In order to overcome these challenge we have identified the need to review our organo-gram where we envisage the improvement of the current financial situation. On the other front we will continue to fight and curb illegal dumping we have thenceforth put 'No Dumping' signs and we will continue to educate our community on the importance of keeping our environment clean.

1. REFUSE COLLECTION



2.6 HOUSING AND TOWN PLANNING

a. Housing and town planning services delivery strategy and main actors

Land availability and affordability is one of key factors to successful housing provision. The extent to which a municipality is considered successful in meeting housing needs of its community is determined by land availability and affordability. In this regard the municipality continues to identify land for human settlement and development. We are acutely aware of the fact that alongside housing developments, there will ultimately arise the need to take into consideration, the provision of the different public amenities, such as cemeteries, clinics, schools, roads and storm water to name a few. In addition, there is also related community services such as the provision of water, sanitation, refuse disposal and collection.

While, the responsibility to provide housing is the function of the provincial housing department. Our role is limited to the facilitation of the process. However, the major challenge begins when the municipality takes over from the department. We therefore, have over the years sought to play a more active role and influence planning by increasing our participation being mindful of the challenges that accompany housing and the related developments.

b. level and standard in housing and town planning

We so far set aside 204 ha of land for future housing development which include 1127 units, 46 units and 164 housing units. We also proposed on our housing sector plan to have a housing unit to fully participate in facilitation of this function for us to improve on housing delivery for our communities. This housing unit will operate within our municipality and will have town planning facilities as well

c. Annual performance as per key performance indicator in housing and town planning services

	Indicator name	Target set for the year	Achievement level during the year	Achievement percentage during the year	Overall achievement rate including previous years.
1	Percentage of Households living in informal settlements	0	23	+ 100%	+100%
2	Percentage of house holds in formal housing that conforms to the minimum building standards for residential houses	6062	6039	99%	99%
3	Percentage of LM with an approved SDF	1	1	100%	100%
4	Percentage of LM with land use management Plan	1	1	100%	100%

d. Major Challenges & Remedial actions:

We haven't got skills such as building control officers and town planners making it even difficult to monitor these projects hence the quality is compromised.

Finance for this unit is not budgeted for in this financial year. We envisage that the Proposed housing unit that will be co-funded together with the provincial government.

CHAPTER 3

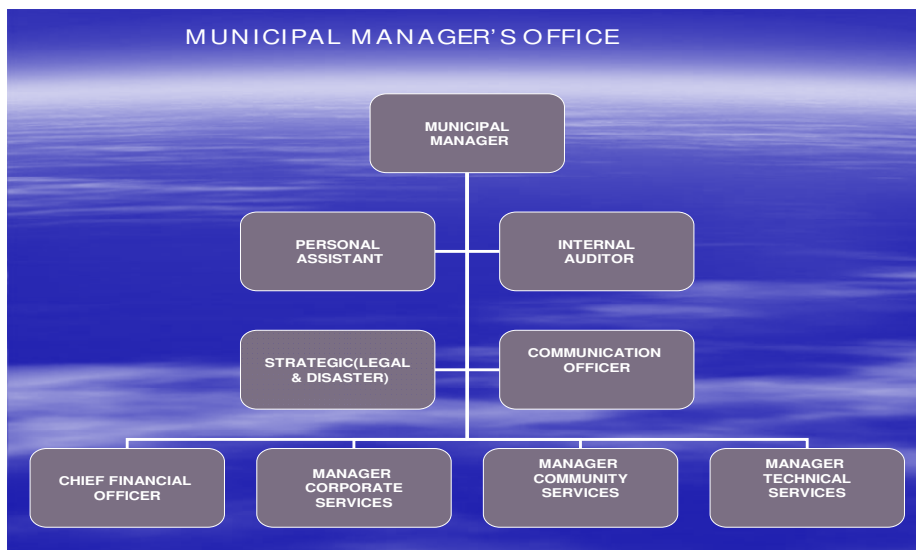
INSTITUTIONAL & HUMAN RESOURCES MATTERS

3.1 Introduction

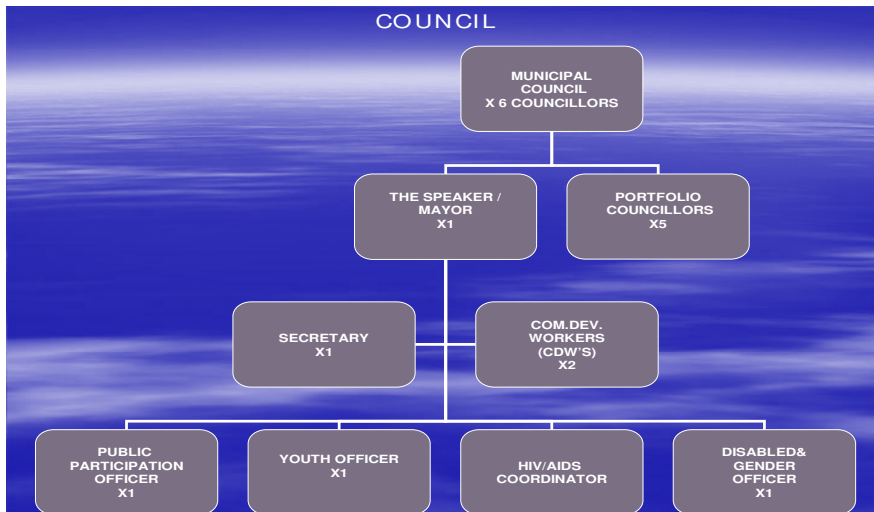
The corporate services department derives its mandate from the council's key development objectives, that is, the institutional development. The primary function of this department, is therefore among others to facilitate institutional development, including staffing and staff development. Our commitment as an internal service provider and facilitator is to ensure the municipality is strategically positioned and resources to meet and maximise on client needs, the various publics. It is important to mention herein that to date our greatest challenge remains, staff retention. Due to the size of our budget, we have found ourselves in an untenable position, where we struggle to firstly entice skilled personnel and to retain staff. As a consequence our staff development programme has been greatly compromised, in that even though we have invested time and resources in developing skills and competencies in key functional areas, these have come to not where we have in one fell swoop lost three highly skilled manager.

3.2 Inkwanca LM Organizational Structure

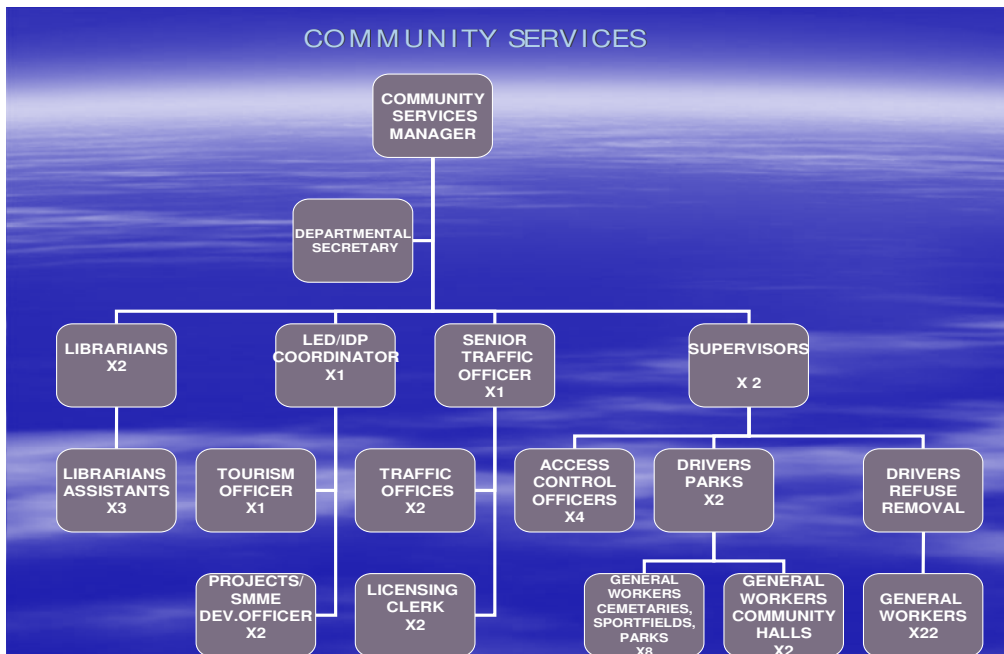
Currently, our organisational structure has hundred and eight five (185) approved positions of which only one hundred and twenty three (123) are filled and funded. There remains, sixty two (62) positions that are vacant and not funded. Our major challenge remains the size of personnel budget of our municipality, we are therefore unable to compete effectively in the labour market.



All 4 Section 57 positions are filled. The position for Strategic Officer (Legal & Disaster) is still vacant but not funded. The position for the Internal Auditor as per our organogram is still vacant but CHDM has sent someone to assist us in this department as an internal auditor. The position for the Communication Officer was advertised but no appointment made.



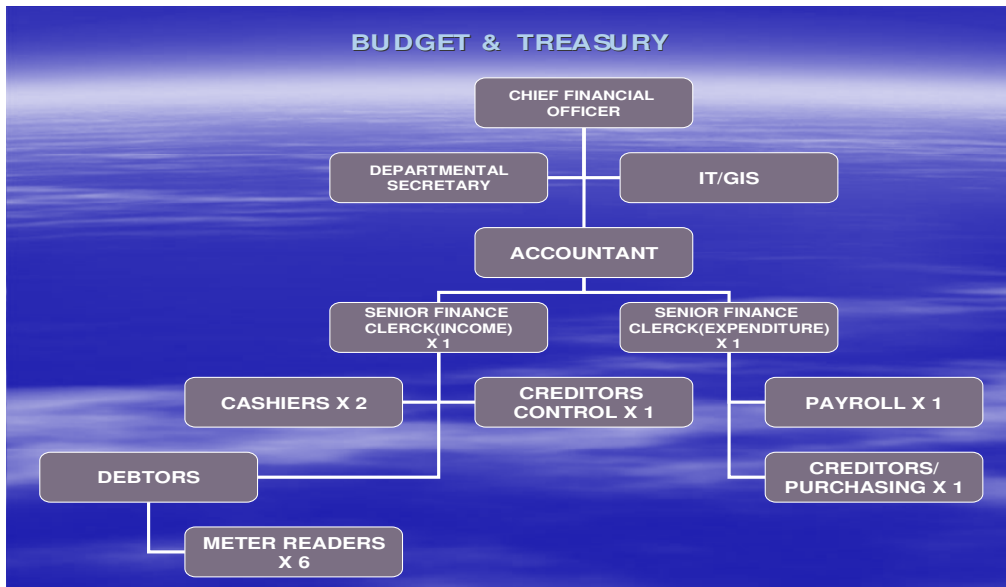
The council consists of 6 Councillors including the speaker who is full time since August 2006.



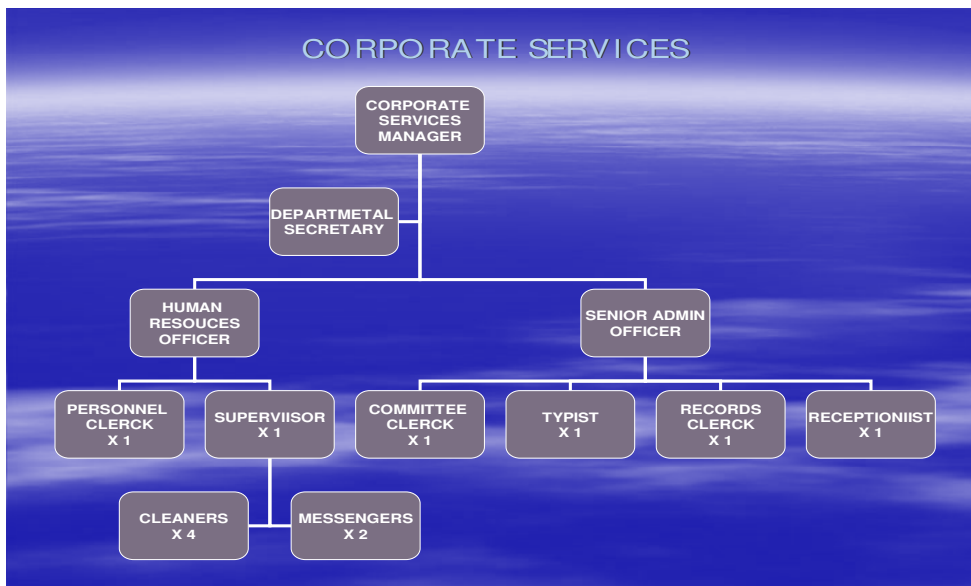
The community service department consists of the following:

- Environmental Health
- Refuse Removal
- Local Economic Development
- Library Services
- Parks and Public Places and Community Facilities.

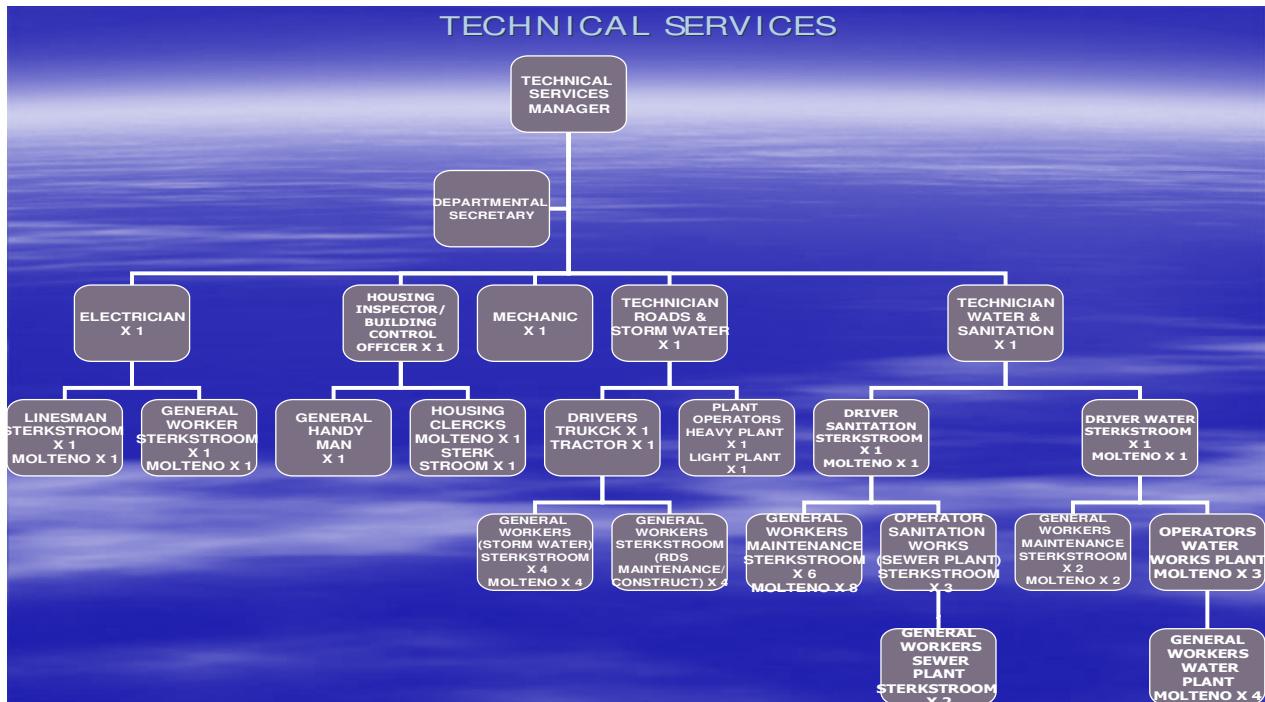
The positions for the LED/IDP, Access Control Officers, and Secretary are vacant but not funded.



Among the functional areas that fall within the Budget and Treasury Office are:-Revenue Management, Budget implementation and control, Financial Administration, ICT & Systems Administration and Supply Chain Management.



The position for the Corporate Service Manger has been filled for the first time. Further the department consists of HR Section and Administration and all the other posts have been filled except the following positions: Typist, Records Clerk, Secretary, 1 Supervisor, 3 Cleaners and 2 Messengers.



Consists of Roads and Stormwater, Town Planning, Water and Sanitation, Electricity and GIS

3.3 Staff development initiatives during the financial year

- Corporate Services - 2
- Budget and Treasury - 3
- Community Service Department - 6
- Technical Service Department - 3
- Municipal Manager’s Office - 2
- Mayors Department - 2

3.4 Key HR statistics per functional Area

a. Section 57 Managers, Municipal Manager and Assistant Mangers

Approved Positions	Number of Approved Posts per Position	Filled Posts	Vacant Post
Municipal Manager	1	1	0
Chief Financial Officer	1	1	0
Corporate Service Manger	1	0	1
Community Service Manager	1	1	0
Technical Service Manger	1	1	0
TOTAL	5	4	1

b. Sanitation

Approved Positions (Ex: Managers/Asst. Man.)	Number of Approved Posts per Position	Filled Posts	Vacant Post
Technician	1	0	1
Drivers	2	2	0
Operators	3	1	2
General Workers	8	5	3
Total	14	8	6

c. Electricity

Approved Positions (Ex: Managers/Asst. Man.)	Number of Approved Posts per Position	Filled Posts	Vacant Post
Electrician,	1	0	1
Linesmen	2	2	0
General Workers	2	2	0
Total	5	4	1

d. Water

Approved Positions (Ex. Managers/Asst. Man)	Number of Approved Posts per Position	Filled Posts	Vacant Post
Technician	1	0	1
Drivers	2	2	0
Operators	3	0	0
General Workers	8	7	1
Total	14	9	5

e. Finance

Approved Positions (Ex. Managers/Asst. Man)	Number of Approved Posts per Position	Filled Posts	Vacant Post
Accountants	1	1	0
Senior Finance officers	2	2	0
Finance Clerks & Secretary	6	4	2
Cashiers	2	2	0
Meter Readers	6	3	3
Total	17	12	5

f. Planning and Local economic development

Approved Positions (Ex. Managers/Asset, Man)	Number of Approved Posts per Position	Filled Posts	Vacant Post
LED Coordinator	1	0	1
LED Officers	3	2	1

Total	4	2	2
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1. Level of Education Skills

Total Number of Staff	Number of staff under grade 12	Number of staff with Senior Certificate	Number of staff with Tertiary/Professionals
123	79	30	15

2. Trends on total personal expenditure

Years	Total Number of Staff	Personal expenditure (salary and salary related)	Percentage of expenditure
2004-2005	93	60%	34%
2005-2006	105	61%	36%
2006-2007	112	65%	39%
2007-2008	123	66%	29%

3. List of Pension and Medical Aids used by employees

Name of Pension fund	Total of Staff Served	Names of Medical Aids	Total Staff Contributing
SAMWU	29	SAMWUMED	37
SALA	48	DISCOVERY	5
OLD MUTUAL	1	BONITAS	10

2. Senior Officials Wages and benefits (Only if not included in the Financial Statements)
Wages and Benefits are included in the Financial Statements Statement

3. Annual performance as per key performance indicators in municipal transformation and organizational development

	Indicator name	Target set for the year (number of people)	Achievement level during the year (number of people)	Achievement percentage	Overall achievement rate including 3 previous years
1	Vacancy rate for all approved posts	12	11	91.7%	95%
2	Percentage of appointment in strategic positions (Municipal Manager and Section 57 Managers)	1	2	200%	83%
3	Percentage of Section 57 Managers including Municipal Managers who attend a leadership training within the FY	4	3	75%	62.5%

4	Percentage of Mangers in Technical Services with a professional qualifications	2	2	100%	100%
5	Adoption and implementation of Performance Management System	4	4	100%	100%
6	Adoption and implementation of a Human Resource Development Plan including workplace skills plan	123			
7	Completed a skills Audit (including competency profiles)	123	123	123	123
8	Percentage of Councillors who attended a leadership training within the FY	6	3	50%	
9	Percentage of Councillors				
	- with disability	0	-	-	-
	- female	3	3	50%	50%
	- youth	2	2	33%	38.9%
10	Adoption of the Employment Equity Policy	123	123	123	123

4. Major challenges and remedial action in regard to human resource and organizational management.

- The Corporate Services Department was functioning without a Manager.
- Attraction and retention of scarce skills
- Staff turn over

CHAPTER 4

LOCAL ECONOMIC DEVELOPMENT INITIATIVES

4.1 Introduction

The LED unit was established in 2006 by the council with a specific purpose to facilitate and fast-track local economic development. The task remains to identify economic opportunities through consultations with the different stakeholders in our communities. In a way the municipality contributes to the process by allocating time to capacity building, conducting feasibility studies, which includes project planning, financial viability, market feasibility, resource mobilization which includes identifying sources of funding and land, identifying infrastructure needs.

4.2 Tourism Projects

The rich history of the area preserved in the form of Khoi art remains largely untapped and the atmosphere said to be perfect for asthma sufferers represents a major national attraction to the area. A tourism sector plan has been developed by the municipality and implementation is to begin with the training of Councillors, officials and members of the public. Further a new game farming and hunting lodge namely the Masizakhe Game Farming & Hunting Lodge has been developed and this and other initiatives will go a long way in improving our tourism. The challenge is to ensure more people from the historically disadvantaged communities take part in this sector.



In winter – snow can be both fun and highly challenging to livestock and people but it is a source of tourist attraction

The Chris Hani District Municipality embarked on a Liberation Heritage Route Project to promote tourism within the District. In Inkwanca Municipality the following sites were identified as Heroes Park in Moltene and the Stone of Remembrance in Sterkstroom where monuments of fallen heroes during 1985 are erected.

(Our parks and public places are clean and well taken care of. They are properly fenced. Heroes Park in Moltene below.)



Areas rich in the history of Moltene were also identified. These areas include old church buildings and areas where people were evicted when the Group Areas Act of 1913 was implemented.

4.3 Local initiatives

Our area is also potentially rich in coal belt that stretches to areas like Lady Frere. The Municipality has embarked on a process of trying through agreements with prospective investors to open these belts which will open job opportunities for our communities.

Our area has got a special type of clay that is good for brick making. Optimal use of this clay will ensure that jobs are created.

Projects that are currently undertaken

1. The Wool and mutton project in Sterkstroom was launched in the previous financial year with the assistance of Chris Hani District Municipality. To date we are proud to say that the project is still operating and is growing. This project is comprised of 17 beneficiaries, a combination of youth, women and the elderly.



Left: part of the 500 plus flock grazing next to the drinking area. Right: wool sorting area in Lismore shearing shed.

2. Herbs project which is funded by Social Development. It consists of 15 beneficiaries of young women. This too, is also growing.
3. Inyibiba Dairy Project. The focus on milk production and supply the local



4. Masithobelane Sizama Lucerne Project is comprised of 12 beneficiaries. Their focus is lucerne planting.
5. Siyokhana Poultry Project in Molteno has 14 beneficiaries – the project focuses on rearing of broilers as well as layers. both chicken and eggs are then produced for the local market.



The following 2 projects have been identified, but there is no progress the Community Garden and Apple project in Molteno. The municipality has made land available for these projects. Social Development has made funds available to kickstart the Community Garden project, but there is lack of commitment from the beneficiaries.

The cold weather in Molteno accounts as our competitive advantage for the growing of apples. The Development Bank of Southern Africa has made funds available for this project.

The role of the municipality in local economic development is to assist communities to identify projects (conduct feasibility studies) and secure sources of funding. The total amount that was budgeted for was R13 900 000.00 for a 3 year cycle. Out of that amount we have managed to secure the funds and an amount of R4 330 000 was spent for projects. The sources of funds are DBSA, CHDM, Social Development, and Department of Agriculture

CHAPTER 5

AUDITED STATEMENTS & RELATED FINANCIAL INFORMATION

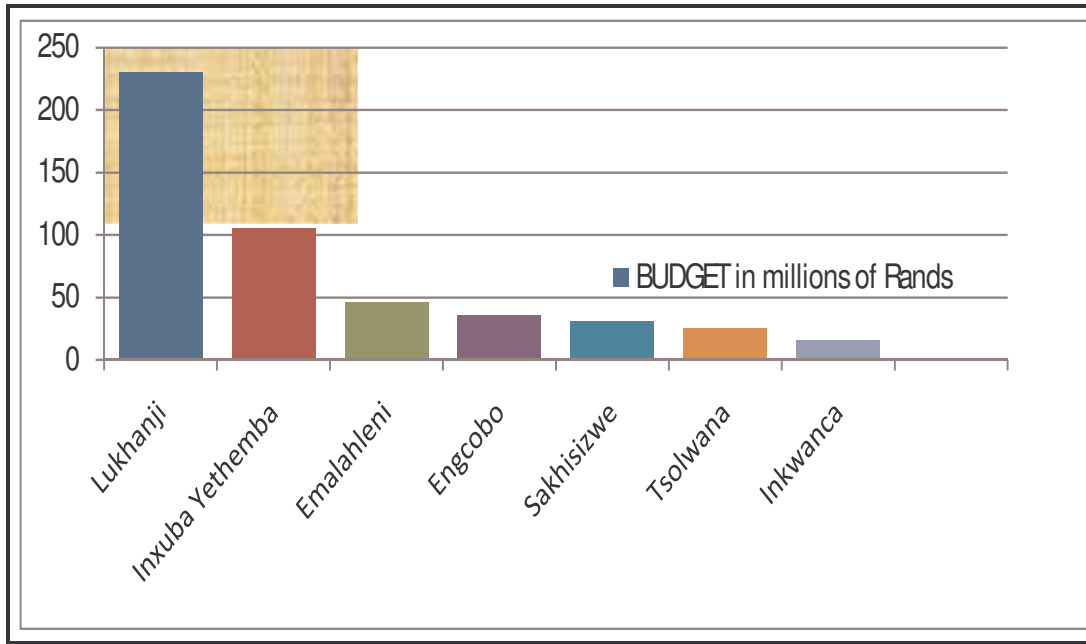


Ms Zanele Folose, Chief Finance Officer joined the municipality in January 2008.

5.1 Introduction

Inkwanca Local Municipality is one the three very small municipalities in the Eastern Cape with NO WARDS (the other two are Ikwezi and Baviaans local municipalities both in the Cacadu District). The municipality's revenue base is also very lean. The following table indicates the relative size of operational budgets of all eight local municipalities in Chris Hani District.

Local Municipality	Total Operational Budget 2007/2008
Lukhanji	R230 256 000-00
Intsika Yethu	-
Inxuba Yethemba	R105 165 586-00
Engcobo	R 35 972 793-00
Emalahleni	R 45 894 797-00
Sakhisizwe	R 30 575 949-00
Tsolwana	R 25 306 904-00
Inkwanca	R 16 004 823-00



Inkwanca LM's budget compared to similar municipalities within the province Ikwezi and Baviaans:

Municipality	Operational Budget	Capital Budget
Baviaans	R16 719 295-00	R26 930 950-00
Inkwanca	R16 004 823-00	R 8 598 000-00
Ikwezi	R14 343 640-00	R 6 428 000-00

5.2 Operational and Capital Budget Information

The primary revenue sources of the municipality are similar to those of most rural municipalities and comprise of income from property rates, electricity, water, sanitation and refuse collection, together they constitute 45% of the municipality's revenue. Grants and Subsidies remain the biggest revenue source contributor at 52%. The secondary sources like, traffic fines, cemetery fees, rent or hiring of municipal buildings and facilities, etc only contribute 3% to municipal coffers. The table and chart below reflect on the various sources of our revenue.

Table: *Revenue Sources*

Revenue Source	Amount	%
Property Rates	R3 533 318	22%
Water	R 562 198	4%
Electricity	R2 366 280	15%
Sewerage	R 529 079	3%
Refuse	R 229 548	1%
Grants & Subsidies	R8 330 421	52%
Other	R 453 984	3%
TOTAL	R16 004 823	100%

REVENUE SOURCES

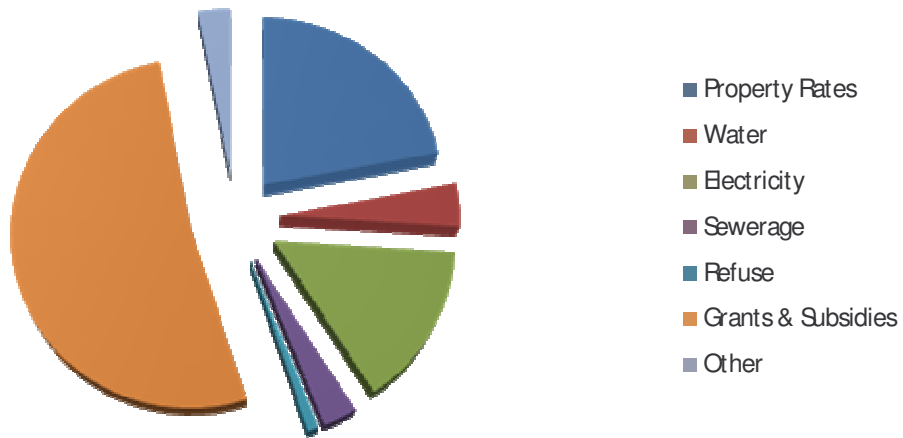
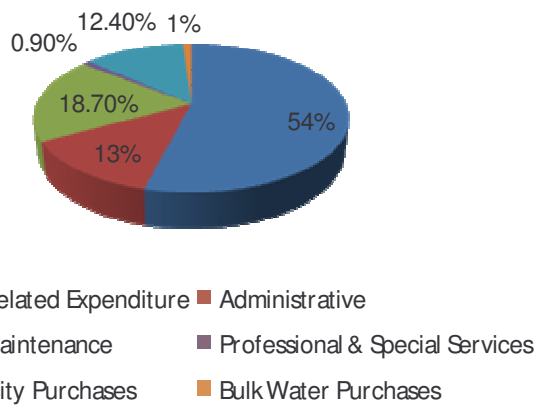


Table: Summary of Expenditure per Standard Items

Standard Items	Amount	%
Employee related	R8 660 588	54%
Administrative Expenditure	R2 078 338	13%
Repairs & Maintenance	R2 995 342	18.7%
Professional & Special services	R 135 335	0.9%
Electricity Bulk Purchases	R1 977 454	12.4%
Water Bulk Purchases	R 157 766	1%
TOTAL	R16 004 823	100%

Summary of Expenditure



5.3 Financial Status of the Municipality

At the end of 2006/07 financial year we reported that the debt owed to the municipality by residents was “growing by R700 000 (over seven hundred thousand Rands) a per month”. Little did change during the year under review, in fact the situation got worse. Currently, the value of accounts we send out is approximately R1,4 million and the income we receive is around R800 000. As a consequence we have a cumulative effect of R7,2 million unrealized revenue per year. The majority of residents who are suppose to pay are not paying. Currently it is those that are indigent - through indigent subsidies.

We closed the year on very sad state of financial affairs – with the municipality’s inability to meet its financial obligations. National Treasury, Provincial Treasury, Department of Local Government and Traditional Affairs, and Chris Hani District were informed of our situation. The Assessment and Diagnosis exercises that were conducted revealed, that at the cracks of our financial woes lies the following :

- **Systemic problems:** the municipality changed its Turbo Munex system to Venus during 2006/2007 financial year. During migration data accuracy was critical affected. The new system E-Venus was not compatible for the implementation of the Property Rates Act 2005 as a consequence the first six months was lost as no rates account were issued. Even when they were finally issued, most were incorrect, that further resulted in reluctance to pay on the side of residents.
- **National grants may not be sufficient:** The Equitable Share allocation is based on 2001 Census statistics. Since that census, the number of households has risen from 5384 to 6569 in terms of our municipal data. Between 2001 and 2007 we have added three new townships with 934 poor households (Nceduluntu 116 units, Dennekruin/Langgewag 97 and Sonwabile 721). These of poor households are not taken into account when the equitable share allocations are made.
- **Revenue Base:** Revenue collection is based on a non-scientific tax base. Whilst it is common knowledge that our revenue base is limited or lean, there has never been a study conducted or a survey and subsequent analysis to support such an understanding. We cannot for sure say the current tax base is sufficient to ensure the municipality’s financial viability
- **Unrealistic budget:** That the expenditure is greater than the revenue - the pressures and constant rising costs of service delivery, obligatory commitments like personnel expenditure which in 2008/09 stands at 63% of the operating budget makes it impossible to balance expenditure and revenue

INKWANCA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

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 FOLOSE

Chief Financial Officer

A KOOS

Technical 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

Telephone: 045 967 0021

Fax: 045 967 0467

ACCOUNTING OFFICER'S REPORT

I am responsible for the preparations of these annual financial statements which are set out on page 1 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 12 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 accordance with this Act.

EXPRESSION OF APPRECIATION

I am grateful to the Mayor, Councillors and to the municipal staff for their assistance and support during the year.

.....
MUNICIPAL MANAGER: NA NCUBE

Dip. Advanced Public Administration (Univ. of Stellenbosch)
CPMD (Univ. of Witwatersrand)
STD (Univ. of Transkei)
AWS (Univ. of Stellenbosch)

(Accounting Officer)

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 a 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 assets 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 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).

9. 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.

10. Income recognition

10.1 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 consume 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 recognized at the date of purchase.

10.2 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.

10.3 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 LOCAL MUNICIPALITY

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

2007 Actual income	2007 Actual expenditure	2007 surplus/ (deficit)		2008 Actual income	2008 Actual expenditure	2008 surplus/ (deficit)	2008 Budgeted surplus/ (deficit)
R	R	R		R	R	R	R
14,852,075	10,165,435	4,686,640	RATES AND GENERAL SERVICES	16,081,599	21,009,021	(4,927,423)	(305,509)
7,969,479	4,786,196	3,183,283	Rates & Corporate services	9,874,341	15,318,320	(5,443,979)	3,728,689
2,802,659	3,277,186	(474,527)	Community/Subsidised services	2,418,894	3,944,210	(1,525,316)	(3,287,996)
4,079,937	2,102,053	1,977,884	Development /Economic services	3,788,364	1,746,491	2,041,872	(746,202)

29,693	277,913	(248,220)	HOUSING SERVICES	9,906	593,229	(583,323)	(1,233,752)
8,216,544	4,205,894	4,010,650	TRADING SERVICES	7,944,692	3,902,692	4,042,000	1,341,860
23,098,312	14,649,243	8,449,070	TOTAL	24,036,197	25,504,942	(1,468,745)	(197,401)
		(6,670,627)	Appropriations for the year (refer note 16)			1,696,280	
		1,778,442	NET SURPLUS (DEFICIT) FOR THE YEAR			227,536	
		(1,342,421)	Accumulated surplus/(deficit) beginning of the year			436,022	
		436,022	ACCUMULATED SURPLUS END OF THE YEAR			663,558	

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	2008	2007
		R (29,061)	R 17,341,948
CASH RETAINED FROM OPERATING ACTIVITIES			
Cash generated by operations	15	(5,684,339)	3,055,978
(Increase)/Decrease in working capital	16	314,864	2,223,153
Less: External interest paid		(5,369,476)	5,279,131
Cash available from operations		164,863	(82,232)
Cash contributions from the public and the		(5,204,612)	5,196,899
		5,175,551	12,145,049

State			
CASH UTILISED IN INVESTING ACTIVITIES		(748,559)	(134,293)
Investment in fixed assets		(748,559)	(134,293)
Disposal of fixed assets		-	-
NET CASH FLOW		(777,620)	(336,758)
CASH EFFECTS OF FINANCING ACTIVITIES		1,467,859	(224,659)
(Decrease)/increase in long-term liabilities	17	1,622,978	(59,549)
Decrease / (increase) in cash on hand	19	(159,829)	(167,587)
Decrease /(increase) in external cash investments	18	4,709	2,477
NET CASH UTILISED		748,361	(165,111)

INKWANCA LOCAL MUNICIPALITY

BALANCE SHEET AT 30 JUNE 2008

	Note	2008 R	2007 R
CAPITAL EMPLOYED			

FUNDS AND RESERVES**2,938,579****2,904,777**

Statutory funds

1

2,936,505

2,902,853

Reserves

2

2,073

1,924

ACCUMULATED SURPLUS**663,558****436,022****3,602,136****3,340,800**

CONDITIONAL GRANTS

3

531,486

497,107

LONG TERM LIABILITIES

4

2,052,305

429,327

CONSUMER DEPOSITS: SERVICES

5

162,437

139,174

6,348,364**4,406,408****EMPLOYMENT OF CAPITAL**

CONDITIONAL GRANTS INVESTMENTS

3

35,937

31,228

FIXED ASSETS

6

4,292,611

3,544,052

4,328,548**3,575,279****NET CURRENT ASSETS****2,019,816****831,129****CURRENT ASSETS****7,088,260****4,405,797**

Accounts receivable

7

6,812,670

4,364,799

Cash resources

275,590

38,002

Short-term deposits

0

2,997

CURRENT LIABILITIES

		5,068,444	3,574,668
Accounts payable	8	3,727,000	1,783,219
Bank overdraft		435,418	1,183,779
Short-term portion of long-term liabilities	4	297,984	188,855
Provisions	9	608,041	418,814
		6,348,364	4,406,408

ANALYSIS OF FIXED ASSETS

2007 Expenditure	Balance at 30 June 2007	Expenditure during year	Redeemed, trans- ferred or written off during year	Balance at 20-Jun-08
---------------------	-------------------------------	----------------------------	---	-------------------------

R		R	R	R	R
134,293	RATES AND GENERAL SERVICES	64,376,218	1,497,120	-	65,124,778
-	Community Assets	2,355,102			2,355,102
	Land and Buildings	2,090,001			2,090,001
	Resort Development	213,288			213,288
	Koos Ras Game Reserve	51,813			51,813
-	Infrastructure Assets	47,841,644			47,841,644
	Sewerage	11,629,636			11,629,636
-	Water	17,456,787			17,456,787
-	Electricity	8,693,229			8,693,229
	Streets and Stormwater	10,061,993			10,061,993
134,292	Other Assets	3,155,087			3,903,647
38,239	Furniture and Fittings	235,687			235,687
	Land and Buildings	886,944	500,000		1,386,944
	Tractors	208,286			208,286
96,054	Motor Vehicles	1,115,642	248,560		1,364,202
	Graders	319,241			319,241

-	Computers	389,287			389,287
	Housing Services	11,024,385			11,024,385
134,294	TOTAL FIXED ASSETS	64,376,218	748,560	-	# # 65,124,778
	LESS: LOANS REDEEMED AND OTHER CAPITAL RECEIPTS		60,832,167	-	- #
	Loans redeemed and advances repaid	5,869,985			5,869,985
	Contributions from operating income	3,709,216			3,709,216
	Grants and subsidies	51,252,966			51,252,966
	Public contributions				
	NET FIXED ASSETS	<u>3,544,051</u> #	<u>-</u>	<u>-</u>	<u># # 4,292,611</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008 R	2007 R
1. STATUTORY FUNDS		
Revolving Fund	<u>(2,936,505)</u>	<u>2,902,853</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>(2,073)</u>	<u>1,924</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	7,224	6,892
Resort Development	4,431	4,227
Land Ownership	1,729	1,605
Structure Plan	2,944	2,733
Survey of Masakhe	1,934	1,795
Sterkstroom Zoning Map	3,554	3,299
CDF: LEAVE RESERVE F	2,073	-
CDF: REVOLVING FUND	3,927	-
Valuations	3,578	3,320
Community Gardens	-	578
CMIP	-	2,447
MSP	1,601	1,527
Disaster Fund	1,559	1,487

Cemetery Investigation

1,382

1,319

Total Trust Funds

35,937

31,228

- Advances to Operating Account

495,548

465,879

Total Trust Funds

531,486

497,107

Invested as follows:

- Standard Bank short-term investments

35,937

31,228

- Standard Bank current accounts

- Advances to Operating Account

495,548

465,879

531,486

497,107

4. LONG-TERM LIABILITIES

a) Wesbank DDL3689A

32,898

-

b) Wesbank DDL36725K

32,899

-

c) Wesbank D45519X

100,134

-

d) Toyota T54306H

70,067

-

e) Toyota T54306B

55,694

-

f) Wesbank DDL55350J

112,465

-

g) Wesbank DDL55644G

109,117

H) Wesbank DDL52169B

70,592.70

Less Deferred Finance Charges

(206,030)

(183,217)

377,836

(183,217)

Short Term Portion

(297,984)

(188,855)

79,852

(372,072)

Internal Loans	(96,558)	
----------------	----------	--

Loan from Chris Hani District Municipality	2,069,011	
--	-----------	--

Total Value of Long Term Liabilities	2,350,289	
---	------------------	--

5. CONSUMER DEPOSITS:SERVICES

Electricity and Water	162,437	142,097
-----------------------	---------	---------

6. FIXED ASSETS

Fixed assets at the beginning of the year	64,376,217	64,241,925
---	------------	------------

Write off during the year		
---------------------------	--	--

Capital expenditure during the year	748,560	134,293
-------------------------------------	---------	---------

Total fixed assets	65,124,777	64,376,217
---------------------------	-------------------	-------------------

Less: Loans redeemed and other capital receipts	60,832,167	60,832,167
---	------------	------------

	4,292,611	3,544,052
--	-----------	-----------

7. ACCOUNTS RECEIVABLE

Current debtors (consumers)	31,542,649	24,204,312
-----------------------------	------------	------------

Less: Provision for bad debts	24,763,700	19,002,473
-------------------------------	------------	------------

	6,778,949	5,201,839
--	-----------	-----------

Other debtors:	33,721	(837,041)
----------------	--------	-----------

Sundry debtors	33,721	(2,513)
----------------	--------	---------

SARS VAT
Community services

-	(834,528)
---	-----------

6,812,670 4,364,799

Consumer debtors are aged as follows:

Current

1,000,384

30 days

903,352

1,034,379

60 days

865,240

902,783

90 days

978,031

711,639

120 days

17,384,411

21,555,512

21,131,417 24,204,312

8. ACCOUNTS PAYABLE

Trade Creditors

3,727,000 1,783,219

9. PROVISIONS

Leave

608,041

418,814

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

54,086,950

54,086,950

Income from rates

3,169,076

2,157,011

Assessment rates:

11. COUNCILLOR'S REMUNERATION

Mayor's allowance:

341,847

293,968

Salary

207,085

201,532

Travelling allowance

79,032

79,032

Telephone allowance

13,404

6,000

Personal allowance

42,326

7,404

Councillor's allowances:

681,787

685,363

Salaries

399,255

398,152

Pensions

88,911

88,911

Travelling allowances

148,200

148,200

Telephone allowances

41,820

26,220

Personal allowances

3,601

15,600

1,023,634

979,330

Municipal Manager:

423,599

430,002

Salaries

277,875

252,504

Travelling allowance	127,544	132,216
Substance allowance	6,060	12,120
Telephone Allowance	12,120	12,120
Bonus	-	21,042
Chief Financial Officer:	130,678	344,000
Salaries	77,060	178,523
Travelling allowance	50,619	63,508
Substance allowance	-	63,508
Telephone Allowance	3,000	38,462
Manager :Technical services	237,730	344,000
Salaries	102,746	190,523
Travelling allowance	67,492	60,508
Substance allowance	-	66,508
Telephone Allowance	67,492	26,462
Manager : Community Services	220,983	344,000
Salaries	94,720	190,523
Travelling allowance	94,720	60,508
Substance allowance	25,212	60,508
Telephone Allowance	6,332	6,000
Bonus	-	26,462
	882,312	

12. FINANCE TRANSACTIONS

Total external interest earned or paid:

- Interest earned

-

- Interest paid

164,863

46,915

164,863

46,915

Capital charges debited to operating account:

- Interest paid on external loans

120,316

82,232

- Interest paid on internal loans

44,547

32,798

- Redemption of external loans

148,992

165,612

- Redemption of internal loans

52,011

94,833

365,866

375,474

13. APPROPRIATIONS

Appropriation account

Accumulated surplus at the beginning of the year

436,022

(1,342,422)

Operating surplus / (Deficit) for the year

(1,468,745)

8,449,069

(1,032,723)

7,106,647

Less: Appropriations for the year:

1,696,280

6,670,627

- Contribution to leave reserve

- Contribution to Revolving Fund

- Prior year adjustments

7,457,507

2,670,627

- Provision for bad debts

(5,761,227)

Accumulated surplus (deficit): end of year

663,558

4,000,000

436,020

14. APPROPRIATIONS (continued)

Operating account

Capital expenditure

-

-

Contributions to:

- Revolving Fund

33,653

35,130

33,653

35,130

15. CASH GENERATED BY OPERATIONS

Surplus / (Deficit) for the year

-1,468,745

8,449,069

Appropriations charged against income:

33,653

35,130

- Fixed assets

-

- Revolving Fund

33,653

35,130

Capital charges:

375,474

Interest paid:

- to internal funds

44,547

32,798

- on external loans

120,316

82,232

Redemption:

- of internal advances

52,011

94,833

- of external loans

148,992

165,612

Grants and subsidies received from the state

(4,249,247)

(5,803,696)

	<u>(5,684,339)</u>	<u>3,055,978</u>
16. (INCREASE) / DECREASE IN WORKING CAPITAL		
(Increase) / decrease in debtors	2,447,872	(253,589)
Increase / (decrease) in creditors	<u>(2,133,008)</u>	<u>2,476,743</u>
	<u>314,864</u>	<u>2,223,153</u>
17. (DECREASE)/ INCREASE IN LONG-TERM LIABILITIES		
Loans raised	2,069,011	106,062
Loans repaid	<u>446,033</u>	<u>(165,612)</u>
	<u>1,622,978</u>	<u>(59,549)</u>
18. (INCREASE)/DECREASE IN EXTERNAL CASH INVESTMENTS	<u>4,709</u>	<u>2,477</u>
19. DECREASE / (INCREASE) IN CASH ON HAND		
Other cash balances for the year	275,590	55,776
Add: Bank overdraft at end of year	<u>(435,418)</u>	<u>(38,002)</u>
	<u>(159,829)</u>	<u>17,774</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><u>895,610</u></u>	<u><u>895,610</u></u>
--------------------------	-----------------------	-----------------------

(Refer to Appendix B for more detail)

22. CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

- Approved and contracted for	0	0
- Approved but not yet contracted for	<u>0</u>	<u>0</u>
	<u><u>0</u></u>	<u><u>0</u></u>

This expenditure will be financed from:

- Internal sources		
- External sources	<u>0</u>	<u>0</u>
	<u><u>0</u></u>	<u><u>0</u></u>

23.a LEASE COMMITMENTS

	<1 Year	2-5 Years	<1 Year
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- Xeror Photocopier for 5 years started 31 Oct 2003 to 1Oct 2008,Monthly rental of R620 escalate by 10%		2,997	8,991

©	Gestetner-Photocopier for 5 years started 03 Nov 2003 to 31 October 2008,Monthly rental of R1446.56 escalate by 0%	5,786	17,359
(d)	Office World -Telephone maintennce and Management system commenced 11Nov 2003 to 31 Oct 2006 Monthly rental of R 1559.24		0
		8,783	26,350

24. CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS

A fire caused damage to property. A contingent liability of R407 000 was raised to cater for the amount due to likelihood of an obligation that may be due.

25. POST BALANCE SHEET EVENTS

None

26. UNAUTHORISED,FRUITLESS AND WASTEFUL EXPENDITURE

None

27. GOING CONCERN

Inkwanca Municipality will continue with it operations

DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

2007 Actual income	2007 Actual expenditure	2007 Surplus/ (deficit)		2008 Actual income	2008 Actual expenditure	2008 Surplus/ (deficit)	2008 Budgeted surplus/ (deficit)
R	R	R		R	R	R	R
14,852,075	10,165,435	4,686,640	RATES AND GENERAL SERVICES	16,081,599	21,009,021	(4,927,423)	(305,509)
7,969,479	4,786,196	3,183,283	Rates & Corporate services	9,874,341	15,318,320	-5,443,979	3,728,689
7,969,479	1,497,424	6,472,055	Assessment Rates & Estates	9,872,141	8,351,280	1,520,861	7,463,758
0	1,854,156	(1,854,156)	Executive & Council	2,200	4,037,894	(4,035,694)	(1,181,124)
0	1,434,616	(1,434,616)	Administration	0	2,929,146	(2,929,146)	(2,553,944)
2,802,659	3,277,186	(474,527)	Community/Subsidised services	2,418,894	3,944,210	-1,525,316	-3,287,996
28,911	6,413	22,498	Cemetery	58,663	84,396	(25,733)	(12,674)
0	21,936	(21,936)	Clinic,Creche,Aged centre	0	0	-	-
351	317,328	(316,977)	Library Service	0	304,575	(304,575)	(298,935)
34,456	991,917	(957,461)	Parks , Recreation and Halls	31,584	834,342	(802,759)	(720,255)
2,595,816	1,853,585	742,231	Cleansing	2,269,472	2,508,886	(239,414)	(2,123,880)
143,125	86,008	57,117	Traffic Services	59,176	212,011	(152,835)	(132,252)

4,079,937	2,102,053	1,977,884	Development /Economic services	3,788,364	1,746,491	2,041,872	-746,202
4,079,937	1,047,464	3,032,473	Sewerage	3,788,364	1,013,762	2,774,602	(363,655)
0	1,054,589	(1,054,589)	Public works, Roads	0	732,729	(732,729)	(382,547)
29,693	277,913	(248,220)	HOUSING SERVICES	9,906	593,229	-583,323	-1,233,752
29,693	277,913	(248,220)	Selling and letting schemes	9,906	593,229	(583,323)	(1,233,752)
8,216,544	4,205,894	4,010,650	TRADING SERVICES	7,944,692	3,902,692	4,042,000	1,341,860
2,379,915	2,743,439	(363,524)	Electricity supply	2,621,721	2,876,731	(255,010)	(781,581)
5,836,628	1,462,455	4,374,173	Water supply	5,322,971	1,025,961	4,297,010	2,123,441
<u>23,098,312</u>	<u>14,649,243</u>	<u>8,449,069</u>	TOTAL	<u>24,036,197</u>	<u>25,504,942</u>	<u>-1,468,745</u>	<u>-197,401</u>
		(6,670,627)	Appropriations for the year (refer to note 16)				(1,696,280)
		1,778,442	NET SURPLUS FOR THE YEAR			227,536	
		(1,342,421)	Accumulated surplus / (deficit) beginning of the year				436,022
		<u>436,022</u>	ACCUMULATED SURPLUS END OF THE YEAR				<u>663,558</u>

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

Introduction

1. I was engaged to audit the accompanying financial statements of the Inkwanca Local Municipality which comprise the balance sheet as at 30 June 2008, income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the treasurer'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 standards laid down by the Institute of Municipal Finance Officers (IMFO) in the Code of Practice (1997) and the Report of Financial Statements (2nd edition, January 1996) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (Municipal Finance and Management Act (56 of 2003)). 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) (PAA) and section 126 (3) of the Municipal Finance and Management Act (56 of 2003), my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing. *General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.* Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. The municipality's policy is to prepare financial statements on the standards laid down by the Institute of Municipal Finance Officers (IMFO) in the Code of Practice (1997) and the Report of Financial Statements (2nd edition, January 1996) as set out in accounting policy note 1.

Basis for adverse opinion

5. Management has an obligation to put controls in place to help identify and implement the appropriate accounting frameworks and policies to structure and govern its financial management responsibilities, as required by the Municipal Finance and Management Act (56 of 2003). Management is also required to properly analyse financial risk at account balance level and implement appropriate controls to minimise these risks. During the performance of the audit we identified many instances where controls had not been designed and implemented, resulting in material misstatement of the financial position of the municipality.

Corresponding figures

6. Numerous errors in the prior period financial statements that were reported in the audit report for the year ended 30 June 2007 were corrected by adjusting the accumulated surplus and the relevant account balance in the current period without restating the corresponding figures.

7. Prior year adjustments of R7.5 million are disclosed in note 13 to the financial statements. No supporting documentation was provided in support thereof nor was the detail of these adjustments disclosed in the notes as required. I am unable to conclude which account balances are affected by these corrections. There were no alternative procedures that could be performed on these adjustments. As a result, sufficient appropriate evidence relating to the completeness, accuracy, existence, classification, presentation and disclosure of the accumulated surplus and the affected balances could not be obtained.
8. It was reported in the 2006-07 audit report that, revenue was overstated, accounts receivable was understated, cash and cash equivalents was understated and fixed assets were overstated. The cash flow statement contained errors, the short term portion of the long term liability was overstated, unspent conditional grant liability was incorrectly disclosed and the disclosure of taxes, duties, pension, medical contribution, capital commitments, details of long term liabilities conditions and securities, details of bank and cash balances, irregular expenditure and unauthorised expenditure were omitted. No adjustments are reflected in the corresponding figures to correct the errors reflected in the previous year.

Furthermore, the net effect of the errors reported above was not adjusted in the current year. As a result, accumulated surplus is overstated by R2.82 million, whilst expenditure is understated by R178 000 and revenue is understated by R2.64 million for the year under review.

Journals

9. Journals to the value of R18.4 million have been processed without adequate supporting documentation to balance the trial balance to the financial statements. The net effect of these journals resulted in an understatement of conditional grants of R998 506, understatement of expenditure of R5.3 million, understatement of accumulated surplus of R687 215, understatement of accounts receivable of R5.5 million, overstatement of cash and cash equivalents of R155 845, understatement of accounts payable of R867 001 and overstatement of VAT of R2.4 million.

Suspense accounts

10. Suspense accounts of R2.4 million are not recorded in the financial statements. Furthermore the information recorded in the general ledger was not sufficient to identify the nature of the transactions recorded in these accounts. There were no alternative procedures that could be performed to verify these balances. As a result sufficient appropriate evidence relating to the existence, classification, completeness and accuracy of the creditors and debtors and the occurrence, accuracy, classification and completeness of revenue and expenditure could not be obtained.

Accumulated Surplus/Deficit

11. The accumulated surplus/ deficit disclosed in the balance sheet exceeds the amount disclosed in trial balance/ general ledger by R9.7 million. This difference could not be supported by documentation and/ or explanations. As a result sufficient appropriate relating to the completeness, accuracy, existence, classification, presentation and disclosure of the accumulated surplus and the affected balances could not be obtained.

Statutory Fund

12. The contribution to the revolving fund was not correctly calculated and the contribution for the year of R33 653 was incorrectly debited to the accumulated surplus. As a result the statutory funds disclosed in the balance sheet is understated by R128 123, whilst the expenditure for the year disclosed in the income statement is understated by R161 776, and the accumulated surplus is understated by R33 653.

Long term liabilities

13. The nature and book values of the securities provided for the long term liabilities amounting to R2.35 million are not disclosed in note 4 to the annual financial statements as required by the *Code of Accounting Practice For Local Authorities in South Africa*.
14. The short term portion of long term liabilities was incorrectly calculated. As a result the long term liabilities is understated by R103 047 whilst current liabilities are overstated by this amount.

Consumer Deposits

15. A register/ schedule of consumer deposits was not maintained. Furthermore, as the consumer deposits represent less than one percent of the amount due to the municipality for services rendered, the municipal officials did not ensure that adequate consumer deposits were obtained before services were supplied to consumers. There were no alternative procedures that could be performed to verify this balance. As a result it was not possible to obtain sufficient appropriate evidence relating to the completeness, existence and accuracy of consumer deposits and the related debtors.

Fixed assets

16. Fixed assets to the value of R4.3 million disclosed in the balance sheet and in note 6 to the financial statements are stated at cost less loans redeemed and other capital receipts. The cost of fixed assets recorded in the fixed asset register that was provided for audit purposes exceeds the cost of assets reflected in note 6 to the financial statements by R859 437. The fixed asset register does not contain adequate information related to the fixed assets recorded therein. Furthermore assets are not properly marked with unique identification numbers that are appropriately cross referenced to the asset register. As a result assets could not be reliably verified. There were no alternative procedures that could have been performed.

Consequently, sufficient appropriate evidence relating to the existence, completeness, classification, and accuracy of fixed assets to the value of R4.3 million disclosed in the balance sheet and the completeness, accuracy and occurrence of the related expenditure disclosed in the income statement could not be obtained.

17. Loans redeemed during the year of R372 069 were not recorded. As a result the fixed assets disclosed in the financial statements are overstated whilst expenditure disclosed in the income statement is understated by this amount.

Receivables and revenue

18. Net consumer receivables of R6.8 million disclosed in the balance and in note 7 are inaccurate. The accounts receivable control account did not reconcile to the age analysis and is overstated by R1.2 million. The individual debtors were also not reconciled for more than three years, meter readings have not been recorded on the billing system, indigent consumer subsidies of R1 million were not allocated to the indigent consumer accounts, the basic water and electricity charges have not been billed to consumers, rates have not been billed or have been incorrectly billed, the latest property valuations were not correctly captured on the billing system, numerous journals were incorrectly processed to individual consumer accounts.

Furthermore the receivables total annual financial statements of R6.8 million (net of provision) did not reconcile to the trial balance and is understated by R481 139. This difference could not be explained and was not supported by appropriate documentation.

As a result it was not possible to obtain sufficient appropriate evidence relating to the existence, valuation, classification, accuracy, cut off, rights and completeness of the consumer receivables and completeness, classification, cut –off, accuracy and occurrence of revenue.

19. Note 7 of the financial statements discloses current debtors of R 31.5 million whilst the age analysis disclosed in the same note reflects total consumer debtors of R 21.1 million. The difference of R 10.4 million is not explained in the financial statements.
20. The Municipality does not have an accounting policy for doubtful debts and as such it was not possible to calculate the provision for doubtful debts based on an approved policy. Audit work revealed that the provision for doubtful debts as disclosed in note 7 is understated by an amount of R 4.2 million whilst expenditure is also understated by the same amount.
21. The movement in the provision for doubtful debts of R5.5 million was incorrectly debited against the accumulated surplus. As a result the accumulated surplus and expenditure is understated by this amount.
22. The rates revenue of R3.1 million, which is included in the revenue of R24 million disclosed in the income statement, did not reconcile to the revenue calculated based on the valuation roll. As a result revenue and accounts receivable are understated by R5 million.
23. Consumers were charged the incorrect tariff for refuse removal services. As a result refuse revenue included in the total revenue of R24 million disclosed in the income statement and accounts receivable are overstated by R278 787.
24. The electricity tariffs approved by the National Electricity Regulator of South Africa were not correctly applied by the municipality. As a result electricity revenue, which is included in the revenue of R24 million disclosed in the income statement, and debtors disclosed in the balance sheet are overstated by R 259 176.
25. The amount of collection commission on motor vehicle licenses per the general ledger of R59 176 could not be verified. The motor vehicle registration licenses are not sequentially numbered. All the completed books are sent back to the provincial department of transport and as such no register is kept. Furthermore the monthly NATIS reports that reflect the amount of motor vehicle licenses issued by the municipality for each month were not submitted for audit purposes. As a result it was not possible to obtain sufficient appropriate evidence relating to the completeness, accuracy, cut off, occurrence and classification of the collection commission of R59 176 included in the revenue of R24 million and the completeness, existence, accuracy, cut off and classification of cash and cash equivalents.

Cash and cash equivalents

26. A bank overdraft of R435 419 is disclosed in the balance sheet. Unreconciled differences totalling R342 610 are reflected on the bank reconciliation that reconciles the amount recorded on the financial statements to the bank statements. These reconciling items could not be adequately explained and were not supported by appropriate documentation. As a result it was not possible to obtain sufficient appropriate evidence relating to the completeness, classification, existence and accuracy of the cash and cash equivalents recorded on the balance sheet and the completeness, accuracy, occurrence and classification of income and expenditure disclosed in the income statement.

27. The Annual Financial Statements does not have a note for bank and cash in the manner prescribed in section 125 (2)(a) of the Municipal Finance and Management Act (56 of 2003).

Provisions

28. Although attendance registers were used to ensure that all leave taken was recorded, the leave records of employees are generally inaccurate. The attendance register is not signed by the supervisor or manager to ensure that the employee was actually present. Leave capping and the forfeiture of leave was also not correctly applied. As a result the leave pay provision and employee costs are overstated by R365 688.
29. The municipality does not have permits or a restoration plan for its landfill sites and as such is in breach of sections 20 and 28 of the National Environmental Management Act 1998 (Act. No 107 of 1998). No provision is included or contingent liability is disclosed the financial statements for the future restoration costs of these landfill sites or for the penalties that may be imposed by the regulatory authorities in terms of section 29 of this act.

Due to the specialist nature of the calculations required and the lack of available specialists together with the limited nature of the available information it was not possible to determine the effect of this non- compliance on the provisions, expenditure and contingent liabilities disclosed in the financial statements.

Employee Costs

30. Casual wage payments of R363 224 were paid to employees who were not on the municipal payroll during the year under review. Supporting documentation such as attendance register reflecting the signatures of the employees who had collected their wages could not be produced for the payments tested during the audit. Furthermore, in those cases where the required listings were available adequate records of the existence of the employees such as copies of identity documents were not available. There were no alternative procedures that could be performed to verify this expenditure. As a result it was not possible to obtain sufficient appropriate evidence relating to the occurrence, completeness, accuracy and classification of wages paid and the completeness, accuracy, existence and classification of bank and cash. .
31. The contributions to and outstanding amounts in respect of taxes, levies duties and pension and medical aid are not disclosed in the financial statements as required by S125(1)(c) and (e) of the MFMA.
32. The bonuses paid to the the municipal manager, chief financial officer, community and technical services managers totaling R46 915 are not included in the amounts disclosed in note 11 to the financial statements.
33. No accrual was raised for bonuses for the period between the last bonus payment and the year end. As a result employee costs and payables are understated by R240 518.
34. Leave on paid out on termination was calculated incorrectly. Overpayments of R68 969 were made to employees for the year under review. As a result employee costs are overstated and bank and cash is understated by this amount.
35. Fruitless and wasteful penalties and interest of R125 657 on the late payments reported in paragraph 59 have not been accrued or disclosed. As a result paybles and expenditure are understated this amount. Furthermore no fruitless and wasteful expenditure is disclosed in the notes to the financial statements.

Expenditure and payables

36. The expenditure of R25.5 million (including salaries and wages of R10.2 million) disclosed in the income statement does not reconcile to the trial balance and is overstated by R9 million. The corresponding entry affected is reported in paragraph 11.
37. The travel allowances paid to section 57 managers were not included in the calculation of PAYE. As a result receivables and payables are understated by R107 377. Furthermore potential fruitless and wasteful interest and penalties of R15 105 have not been raised or disclosed in the financial statements.
38. The accounts payable disclosed in the balance sheet and in note 8 to the financial statements of R3.7 million does not reconcile to the trial balance. An unreconciled understatement of R2.9 million that could not be adequately explained or supported by documentation exists. Furthermore the amount disclosed as payables does not agree to the listing of creditors provided for audit purposes and is overstated by R461 957. There were no alternative procedures that could be performed to verify these differences. This difference could also not be supported by appropriate documentation or explained. As a result sufficient appropriate evidence relating to the completeness, accuracy, cut off, classification, existence and obligations of payables and the completeness, occurrence, classification, cut off and accuracy of expenditure could not be obtained.
39. Prize money of R200 000 received for the cleanest town competition was incorrectly included in payables. As a result revenue is understated whilst payables are overstated by this amount.
40. The trade payables of R3.7 million are not detailed in note 8 as required by the *Code of Accounting Practice For Local Authorities in South Africa*.
41. Logbooks, trip authorisations and records of maintenance for all municipal vehicles were not adequately maintained for the year under review. As a result I could not obtain sufficient appropriate evidence about the classification and occurrence of expenditure of R1.2 million incurred on fuel and maintenance of the municipal vehicles and the classification and completeness of the related staff debt that should have been disclosed in the financial statements.

VAT

42. A value added tax liability of R1.1 million is included in the payables amounting to R3.7 million disclosed in the balance sheet and note 8 to the financial statements. The amount does not reconcile to the VAT returns for the year which were based on the amounts recorded in the relevant general ledger control account. An unreconciled difference of R1.2 million exists. Payables are thus overstated and expenditure is overstated by this amount.

Cash Flow Statement

43. The cash generated from operation does not cast in cash flow statement and is overstated by R365 866.
44. The increase in cash on hand disclosed in the cash flow statement does not reconcile to the movement in the cash resources per the balance sheet and is understated by R1.15 million.
45. The increase in long term liabilities does not reconcile to the movement in long term liabilities disclosed in the balance sheet and is understated by R109 039.

46. The cash contributions from the public and the state of R5.17 million does not reconcile to the grants and subsidies disclosed in the analysis of operating income and expense and is understated by R3.54 million.

Contingent Liabilities

47. A contingent liability of R407 000 is disclosed in note 24 to the financial statements. This resulted from a fire that caused damage to a property. The municipality admitted liability, however its insurers have declined to accept liability due late notification of the claim. Consequently this contingent liability should have been disclosed as a provision. As a result provisions and expenditure are understated by R407 000. Since the settlement of this liability will result in fruitless and wasteful expenditure, such expenditure should have been disclosed in the financial statements. No fruitless and wasteful expenditure is disclosed in the financial statements.

Capital Comittments

48. Contracted capital comittments totalling R131 600 are not disclosed in the notes to the financial statements as required by the *Code of Accounting Practice For Local Authorities in South Africa*.

Unauthorised expenditure

49. The municipality did not provide a budget that reconciled to the budget disclosed in the financial statements or to the integrated development plan for the year under review. As a result sufficient appropriate evidence relating to the completeness and disclosure of unauthorised expenditure could not be obtained.

Irregular expenditure

50. Management did not monitor the implementation of the requirements of the Municipal Supply Chain Management Regulations issued in terms of the Municipal Finance and Management Act (56 of 2003). As a result expenditure transactions with a value of R3.9 million were not procured or complied in accordance with these regulations. This irregular expenditure is not disclosed in the financial statements.
51. DORA grants of R495 548 were used to fund operating expenditure. This is contrary to the requirements of section 44(2) of DORA and is thus irregular. No disclosures of irregular expenditure are included in the financial statements.

Going concern

52. Note 27 to the financial statements states that the municipality will continue as a going concern. During the audit a number of risks to the municipality's ability to continue as a going concern were identified. The most significant being:
- The collection of overdue amounts due to the municipality by customers remains a significant challenge. There is no implemented credit control or debt collection policy in the municipality and there is no evidence that collections have improved in the current year.
 - The municipality is experiencing cash-flow difficulties and is incurring further liabilities in order to finance operations. The municipality has borrowed R2.5 million from the district municipality to fund its operations.
 - The findings reported in paragraph 6 to 87 affect the financial statements significantly. Had the required adjustments been processed, the financial statements will reflect that the municipality's liabilities exceed its assets, and it is facing serious

financial difficulties. Furthermore, no steps have been taken to report this matter as required by chapter 13 of the MFMA.

- Supplier and statutory payments were also not settled in the prescribed period
- The cash and cash equivalents reflect a net overdrawn position of R160 000.

As a result of the above, the adverse effect on cash flows is expected to remain in the foreseeable future. The risks to the municipality's ability to continue as a going concern reported in paragraph above are not disclosed in the financial statements.

Disclaimer of opinion

53. In my opinion, because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Inkwanca Municipality. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the following matters:

Highlighting critically important matters presented or disclosed in the financial statements

Staff debt

54. Arrear staff debt relating to service charges of R496 196 is included in the accounts receivable amount of R6.8 million disclosed in note 7. The municipality has not implemented processes to collect this arrear staff debt.

Revolving fund

55. As disclosed, in note 1 to the financial statements, the revolving fund investments was used to finance operating costs and as a result the revolving fund of R2.9 million is only supported by investments of R0.9 million.

OTHER MATTERS

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

Internal controls

56. Section 62(1)(c)(i) of the Municipal Finance and Management Act (56 of 2003) states that the accounting officer must ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Consumer deposits	X				
Fixed assets	X				
Inventory	X				
Debtors	X				

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Provisions	X				
Revenue	X				
Expenditure	X				
Irregular expenditure	X				

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

57. The municipality did not comply with any of the reporting requirements contained in sections 54(1), 66, 70(1), 71(1-5) and section 74 of the Municipal Finance and Management Act (56 of 2003) that deal with the budgetary control exercised by the mayor, expenditure on staff benefits, budgeted revenue shortfalls and expenditure overspending, and the submission of monthly budget statements to the provincial treasury.
58. Salary deductions of R3.3 million and other supplier payments totaling R909 242 were not paid timeously as required by section 65(2)(e)&(f) of the MFMA. The fruitless and wasteful penalties and interest on these late payments is reported in paragraph 36.
59. The accounting officer did not notify the National Treasury of the municipality's net overdrawn position in terms s 70(2) of the MFMA.
60. The budget for the year which is disclosed on the income statement reflects a deficit of R197 401. This is contrary to the requirements of section 18 of the MFMA.

Environmental matters

61. Physical inspections conducted during the audit revealed the following health and environmental hazards:
 - The sewerage water in the oxidation ponds in Molteno was overflowing and running into a river nearby. The gates at the sewerage ponds were kept open, and there

were animals drinking from the sewerage ponds and grazing in this area which is a “no-go-area” . This was also noted and reported in prior year audit

- The gates at the Sterkstroom sewerage purification plant were kept open, and there were animals drinking from the sewerage and grazing in this area. Stagnant and flowing sewerage was present in the river running to Burgersdorp. This water used by the community for drinking purposes, bathing and the manufacture of bricks.
- There are also pig pens and freely roaming pigs and faeces present at the river. This area is also littered with rubbish (plastics, bottles, paper, waste matter).

Matters of governance

62. The Municipal Finance and Management Act (56 of 2003) 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:

No.	Matters of governance	Yes	No
	Audit committee		
1(a)	The Inkwanca Local Municipality had an audit committee in operation throughout the financial year.		X
1(b)	The audit committee operates in accordance with approved written terms of reference.		X
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the Municipal Finance and Management Act (56 of 2003).		X
	Internal audit		
2(a)	The [type of entity] had an internal audit function in operation throughout the financial year.		X
2(b)	The internal audit function operates in terms of an approved internal audit plan.		X
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the Municipal Finance and Management Act (56 of 2003).		X
	Other matters of governance		
3	The annual financial statements were submitted to audit as per the legislated deadlines in Section 126 of the Municipal Finance and Management Act (56 of 2003).	X	
4	The annual report was submitted for the auditor for consideration prior to the date of the auditor's report.		X
5	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	X	
6	Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	X	
7	The prior year's external audit recommendations have been substantially implemented.		X
9	There are documented policies and procedures and control systems to ensure the reliability of financial reporting.		X
10	There are documented policies and procedures and control systems to ensure compliance with applicable laws and regulations.		X
11	The information systems were appropriate to facilitate the preparation of financial statements that are free from material misstatement.		X

No.	Matters of governance	Yes	No
12	Delegations of responsibilities are in place.		X
13	Supply chain management policies and procedures were appropriately applied.		X
14	There is a functioning performance management system.		X
	Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
15	The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.		X
16	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
17	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

Material inconsistencies in published information

63. Capital charges debited to operating accounts of R365 866 as disclosed in note 12 of the financial statements does not reconcile to capital charges as per Appendix D.

Unaudited supplementary schedules

The schedules set out on pages xxx to xxx have not been audited. Accordingly no opinion is expressed thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

64. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

65. In terms of section 121(3)(c) of the Municipal Finance and Management Act (56 of 2003), 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

66. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* [and section 45 of the MSA].

67. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

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

Audit findings (performance information)

Performance information not received

69. I was not able to complete an evaluation of the quality of the reported performance information as set out on pages xx to xx of the annual report, since the information was not received in time.

Audit findings

Key Performance Indicators

70. Key performance indicators for each of the development priorities and objectives, as required by section 6 of the MSA, were not developed. Furthermore the integrated development plan did not include key performance indicators.

Development priorities and objectives

71. 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.

Integrated Development Plan and budget

72. The budget contained in the integrated development plan did not reconcile to the annual budget.

APPRECIATION

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

Auditor-General

EAST LONDON

30 November 2008



AUDITOR - GENERAL

Action Taken by the Municipality to address issues raised by the Auditor-General

Action Plan

We have come up with an action plan (See Appendix A) to ensure that issues raised are comprehensively dealt with. The action plan is divided into short-term (within 3 months period), medium-term (3 to 6 months) and long term (over 6 months) actions to be undertaken with clear time frames as to when such intended implementation is to commence and when it is envisaged to be completed. We have established a six-member Steering Committee chaired by the Mayor (who is also a councilor responsible for finance. Also sitting in the committee is Clr Patrick Parker responsible for infrastructure. Other members of this committee are: the Municipal Manager as the Accounting Officer, The CFO, the Technical Adviser (from the National Treasury), and a representative of the Provincial Treasury. The committee meets fortnightly to oversee the implementation of the action plan. Appropriate controls like supply chain management structures; separation of duties in the BTO; and appropriate delegations have been put in place.

Shared Audit Committee

With the assistance of Chris Hanu District Municipality Inkwanca Lm has established a shared Audit Committee services function with the municipalities of Inxuba Yethemba and Tsolwana. As per Audit Charter, the committee has been given the authority to :

- Investigate matters.
- Full and unrestricted access.
- Free access to management, employees and Internal Audit Unit.
- Right to seek legal advice; and
- Freedom to communicate with Auditor-General and the Council.

Internal Audit Unit

At the beginning of 2009, the municipality has established an independent internal audit unit. The unit is co-sourced with Chris Hanu DM. The scope of the unit encompasses the examination and evaluation of the adequacy and the effectiveness of the municipality's system of internal controls; the quality of internal control; as well as the quality of performance in carrying out assigned responsibilities.

APPENDIX A

ACTION PLAN

Short Term

KPA	Output / Projects	MFMA Priority	Implementation Plan	
			Activity	Task
MFMA Reports	Ensure that all MFMA reports are completed and submitted to Provincial and National Treasury.	1, 6 & 8	Prepare monthly, quarterly, half yearly and yearly MFMA reports.	Complete the MFMA Implementation Plan, Budget Evaluation Checklist, Competency Levels, Borrowing Monitoring, Long Term, Municipal Entities and Implementation Priorities

				<i>Contracts, FMG, S71</i>
Revenue Enhancement	<i>Ensure that the credit control policy is implemented by the municipality</i>		<i>Reconciliation of monies owed by Government Departments</i>	<i>Assist in the reconciliation of the monies owed by government departments. Follow up on payments made by government departments.</i>
			<i>Reconciliation of businesses accounts</i>	<i>Assist in the reconciliation of the monies owed by businesses. Implement the credit control policy and follow up on arrangements made.</i>
			<i>Reconciliation of consumers accounts</i>	<i>Reconcile consumer accounts. Implement the credit control policy and follow up on arrangements made.</i>
			<i>Determine the possibility of line losses and theft for water and electricity</i>	<i>Go through the electricity system to check for people that are not buying electricity. Visit households and businesses where tempering is suspected</i>
Municipal Property Rates Act	<i>Ensure that the MPRA is properly implemented</i>		<i>Review the valuation roll</i>	<i>Reconcile the valuation roll with the system and ensure that the information captured on the system agrees to the valuation roll and the deeds office</i>
			<i>Reconciliation of the farmers accounts</i>	<i>Reconcile the farmer's accounts with the valuation roll. Ensure that the amounts billed for farmers are not in contradiction with the rates and tariff policies.</i>
Website	<i>Creation of the municipal website</i>	14	<i>Ensure that the municipality has a website that is operational</i>	<i>Visit the municipality to look at their networking for the installation of a website. Create a website for the municipality Ensure that the municipality complies with s75 of the MFMA</i>
Financial Statements	<i>Updated monthly reconciliations for bank, creditors, debtors, salaries, and VAT. Update the Investments, trust accounts and external loans. Clear all the suspense accounts.</i>	9	<i>Updated bank reconciliations.</i>	<i>Assist the municipality in updating the bank reconciliation.</i>
			<i>Updated monthly reconciliations for creditors, debtors, salaries, and VAT.</i>	<i>Assist the municipality in preparing monthly reconciliations for creditors, debtors, salaries and VAT.</i>
			<i>Reconciliation of Trust accounts, internal and external loans, statutory funds and advance accounts.</i>	<i>Assist the municipality in preparing and clearing of trust accounts, internal loans, statutory funds and advances.</i>
			<i>Cleared suspense accounts.</i>	<i>Assist the municipality in clearing the suspense accounts.</i>
			<i>Review of journals</i>	<i>Scrutinize all journals passed during the year to ensure completeness and correctness</i>

Medium Term

KPA	Output / Projects	Implementation Plan		
Structural Arrangements	Reviewed Organizational Structure		Activity Review the organizational structure Align the organizational structure to MFMA	Task Analyses of existing Structure Prepare proposed structure. Submit the proposed structure to the municipalit
			Municipality consults with unions and other stakeholders	Council Adoption
Financial Statements	Fixed Asset Register	9	Compilation of Asset Register.	Physical verification of assets. Updating of new assets to the system. Ensure that all assets are bar coded and agree to the fixed asset register.
Policies and by laws	Updated policy register		Request current policies of the municipality	Identify existing policies.
		5	Compile database of generic policies	Compile a register of generic policies. Review the existing policies in line with the generic policies.
			Compile a database of proposed policies	Consultation on reviewed policies Council adopts the policies.
Audit Action Plan	Develop the audit action plan for 2007/08	12	Develop the audit action plan for 2007/08	Assist the municipality in developing the audit action plan for 2007/08 Ensure that the municipality is addressing the issues raised in the audit report Ensure that the audit outcome for 2008/09 is improved
Budget 2009/10	Prepare the budget for 2009/10	13	Assist the municipality in the preparation of the 2009/10	Ensure that the half year budget report is prepared Ensure that the s57 managers have received their departmental budgets Ensure that the consultation process with departments is in process Ensure that the draft budget is tabled by 31/03/2009 Ensure that all the budget supporting documentation is tabled with the draft budget
Skills Audit	Conduct the skills audit in the municipality		Secure appointments Conduct Survey Report	Liaise with the municipality to secure suitable dates Interview personnel Consolidate the report of the audit

<i>SCM Unit</i>	<i>Establishment of Supply Chain Management unit</i>	<i>7 11</i>	<i>Establishment of the SCM unit Implementation of the SCM policy</i>	<i>Assist the municipality in establishing the SCM unit Ensure that the municipality is implementing the SCM policy Ensure that the gift register is in place.</i>
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Long Term

<i>KPA</i>	<i>Output / Projects</i>	<i>Implementation Plan</i>		
<i>Capacity Building</i>	<i>MFMA Learning AFS/GRAP/GAMAP /Asset Register SCM Budgets MFMA Reporting Annual Reports</i>		<i><u>Activity</u> Organize training for the Senior Managers and Budget & Treasury staff</i>	<i><u>Task</u> Secure dates for training/workshops Arrange for facilitators that will provide training Assess progress of the training given</i>
<i>Internal Audit Unit</i>	<i>Establishment of the Internal Audit Unit</i>	<i>12</i>	<i>Ensure that the municipality has an operational audit unit</i>	<i>Assist the municipality in establishing the internal audit unit</i>
<i>Internal Controls</i>	<i>Development of Internal Controls</i>		<i>Develop and Implement internal controls</i>	<i>Develop internal for the municipality Ensure that the internal controls are implemented by the municipality</i>
<i>Annual Report</i>	<i>Ensure Legal compliance</i>	<i>10</i>	<i>Ensure that the municipality develops an annual report that is compliant with the requirements of the MFMA</i>	<i>Ensure that the annual report for 2008/09 is completed and complies with the MFMA.</i>