

M B H A S H E M U N I C I P A L I T Y



DRAFT ANNUAL REPORT

2009/2010

**AS ADOPTED BY COUNCIL ON
1/25/2011**

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FOREWORD BY THE MAYOR

Our Municipality has been plagued with instances of political instability that has seen a number of changes in leadership throughout this Local Government term. The overwhelming majority of both the Executive Committee and the Council members were not part of this Council during the period under review. This state of affairs is a recipe for confusion, chaos and lack of development.

The little progress this institution has registered in the financial year under review could have been improved tremendously.

Our stakeholders waited patiently for the institution to stabilise without any hint of losing hope. Such stakeholders and our staff stood firm in their belief that leaders will come and go, but the institution will forever remain. They kept the home fires burning during these trying times of our lives. We particularly salute our Management and staff, who despite the glaringly bleak future, soldiered on relentlessly.

Our financial management and accountability remains a suspect, something that has been building on during the last financial years.

The picture we have painted above, true as it is and without any prejudice, leaves one without hope that things can be better. All we can say is that we have learnt our lessons and we are wiser than before. 2010/11 financial year will definitely be far better than 2009/10 and the previous years.

This is our commitment to improve the lives of the people of Mbashe.

Cllr N.O. Mfecane
Mayor

PROGRAM PRIORITY STATEMENT BY THE MUNICIPAL MANAGER

Background

Accounting officer's responsibility for the financial statements

1. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practice (GRAP) and in the manner required by the Municipal Finance Management Act (MFMA). 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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

2. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the responsibility of the Auditor General (AG) is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009*.

The office of the Auditor General qualified the Mbashe Local Municipality on a Disclaimer opinion for the financial period 2009/10. The following were the basis of disclaimer opinion.

1. Trade and other receivables;
2. Employee-related costs;
3. Property, plant and equipment;
4. Revenue;
5. Value added tax (VAT);
6. Capital commitments;
7. Irregular expenditure; and
8. Unauthorised expenditure.

The municipality has since after the audit outcomes conducting several management meetings to come up with the concrete way of dealing with the administration and good government of the municipality.

The following are the priorities going forward:

1. Developing and monitoring of Action Plans

- Each department within the institution will develop Action Plan to address the AG queries. It will be monitored by Risk Committee (existing), Operation Clean Audit (to be established); and the office of the Internal Audit.

2. Turn-around Strategy

- The institution will unpack the strategy which was developed by the Department of Local Government to look in to matters that related to the municipality and come up with a program of action.

3. Establishing of Operation of Clean Audit Committee within the institution.

4. The municipality is also looking at ensuring that the Risk Committee and Fraud Prevention committee are fully functional.

5. Attend to the issue of policies and their implementation and

6. Strengthening of the system of internal controls is the main priority.

Thank you

Acting Municipal Manager

MBHASHE OVERVIEW

Mbhashe municipality is situated in the south eastern part of the Eastern Cape Province, and is bound by the Qhora River in the south to Mncwasa River in the north along the Indian Ocean. The municipality borders the following municipalities:

- King Sabata Dalindyebo (in the eastern part)
- Ngcobo (to the western part)
- Mquma (to the South)
- Ntsika Yethu (in the South-Western part)

Mbhashe has earned the name from the beautiful river called Mbhashe which flows from the banks of Ngcobo flowing through Dutywa, Gatyana (Willowvale) and Xhora (Elliotdale). Mbhashe is comprised of the three towns of Dutywa, Gatyana and Xhora and numerous rural settlements. The area also boasts the head offices of the AmaXhosa Kingdom at Nqadu Great Place.

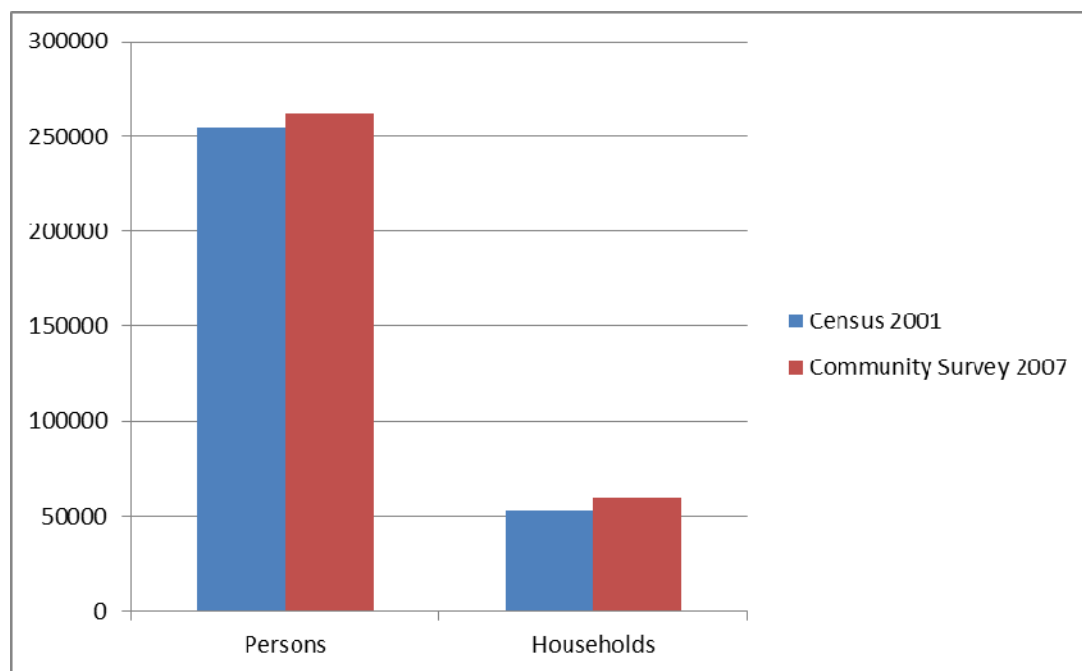
Mbhashe is 3030.47 km² in area and consists of 26 wards and 51 Councillors. The vision of the Municipality is a ***“vibrant institution able to provide quality and accessible services to all its communities in a socio economic manner, with the aim of benefitting her people”***. Four clusters of key development priorities are identified i.e. LED and Environment, Social Needs, Infrastructure and Institutional and Finance clusters.

Mbhashe is predominantly rural, with high levels of unemployment, poverty and dependency. The dependency ratio is set to increase if employment opportunities are not created for the large and youthful population. Mbhashe’s location on the Wild Coast provides the key for potential economic growth as the area is said to be one of the most sought after coastal tourism destinations in the Eastern Cape. The municipality is in the process of reviewing the LED strategy in trying to respond to various issues that impede economic development of the area. The road networks are severely under-maintained with few roads that are tarred, which adds to the economic challenges experienced by the local population as many rural areas and basic services, such as schools, are inaccessible.

Table 1: Population and Household

Persons	Households
Community Survey 2007	Community Survey 2007
262 008	59 705

Figure 1: Comparative Figures between Census 2001 and Community Survey 2007



Source: Stats SA- Census 2001 and Community Survey 2007

The current population of Mphashe according to Community Survey in 2007 shows that the population has increased from 255 071 to 262 008 people and households have increased from 52 886 to 59 705. The population distribution ranges between 6 068 (2 108 households) and 14 822 (3 324 households) persons per ward. The average household size has 5-6 people. The population is distributed as follows:-

Table 2: Population Distribution by Race – Mphashe Municipality

RACE	POPULATION	
	Count	Percentage
African	261,699	99.88%
Coloured	57	0.02%
Indian	178	0.06%

White	77	0.02%
TOTAL	262,011	100%

Source: Statistics SA (Community Survey 2007)

POLITICAL CHANGES

The year under review has been the most memorable and remarkable year for the municipality. The municipality was hugely affected by the national political landscape which saw the emergence of another political organisation. The political leadership of the municipality was alleged to have shifted political homes and were no longer part of the movement which placed them in the municipality. They were later suspended and subsequently expelled from their organisation which led them to court challenging their expulsion.

The period between June 2009 and July 2010, i.e. the period of which we are reporting was one characterised by internal squabbles, court appearances and sometimes more characterised by leadership vacuum. This has had serious implications for the administration of the municipality in various ways, such as:-

- Inability of the municipality to adopt process flow of the IDP and Budget
- Inability of the municipality to hold regular public participation meetings like IDP representative forum meetings
- Not doing enough consultation through community based planning
- Non-sitting of the standing committees, Exco and council
- Only special councils were called and no ordinary council was ever held
- Important council resolutions were not taken as a result affecting service delivery
- No political heads in the departments to direct service delivery
- Council resolutions were not signed leading to un-authorized expenditure in the eyes of the AG
- Non-implementation of the Municipal Turnaround Strategy

This whole fracas led to the following:-

- Emergence of the social forums of dissent outside
- Demotivated staff
- Unhealthy relations between the municipality and the provincial department of local government
- Loss of trust of one another in the municipality and unnecessary suspicions
-

EXECUTIVE SUMMARY

The municipality's vision is of making Mbhashe Municipality a vibrant institution that is able to provide quality and accessible services to all its communities in a socio-economic manner, with the aim of benefiting all her people.

Each year, the municipality revisits and reviews her objectives and strategies in line with its vision. The objectives are reviewed using the 5 KPA's of strategic local government agenda. The targets set for the year are therefore set under each KPA. The following is the summary of the major achievements and administrative and financial challenges faced during the year.

MUNICIPAL TRANSFORMATION

The following are some of the objectives set in municipal transformation. They are:-

- Ensure that municipality complies with all relevant legislations
This was done in response to a series of audit queries raised by the Auditor General in the previous year. The municipality tried to meet all the deadlines as required by legislation but had a big political problem as a challenge which led to non-compliance in some areas.
- Local priority skills development
The municipality has a bursary scheme for the students who have done better in matric school results who at the same time have no enough funds to continue with education. In the year under review, there was one student found in the category as set out in the policy. The two other students whose names were chosen fortunately got another bursary from other industries.

SERVICE DELIVERY

Objectives set under service delivery were the following and highlights per objective are given.

- To provide quality and trafficable road network throughout Mbhashe by 2014
This was a year which started in a very bad note when the National and Provincial MIG offices were threatening to withdraw grant because of incapacity to deliver. Things turned around, the level and speed of delivery quickened and the grant was not taken.
- To provide the three units with adequate electrical service
Crime and violence escalated in the previous years because of the dark corners of the three towns. The municipality seek the assistance from the office of the Mayor and the adjustment budget was made to accommodate electricity re-furbishment in year 2009. That project continued in the year 2009/2010 and up to 90% of the streets have the lights up to date. The major challenge was the servicing of the lights because the municipality had no electrician which was also hired and employed.
- To provide adequate housing to 75% of households by 2014

- To implement Free Basic Services Policy
Whilst the municipality has a policy on free basic services and made the provision for provision of alternative energy to those who don't have electricity; in the year under review the municipality could not provide the alternative because of administrative problems.
- To ensure optimum use of available social amenities by 2014
The municipality is on a mission to make every ward and/or every village to have its own community hall where social activities are held. In the year under review, the municipality built ... of halls and provided furniture to halls such as Lower Mbangcolo.
- Ensure safe coastal zone management
Under the coast care project, the coastal zone is kept clean at all times and made free from alien vegetation.
- To ensure availability of nationally accepted cemeteries by 2012
Cleaning, fencing of the cemeteries took place as part of the continuous programme of the municipality.

LOCAL ECONOMIC DEVELOPMENT

Objective 1: Development of a vibrant and sustainable agricultural sector by 2012

Various initiatives and interventions through LED programs were undertaken during the year. Agricultural Development is seen as the municipality's top priority in terms of changing the life of the people using their own natural resources. Various programmes were then implemented such as:-

- Provision of inputs for vegetable production
- Construction of shearing sheds
- Provision of inputs for maize production
- Provision of fencing for maize production program
- Provision of medicine for animal stock
- Renovation of dipping tanks
- Construction of stock dams

Objective 2: Creation of viable and sustainable enterprises able to increase growth rate by 6% in 3 years

Creating sustainable enterprises was done through mobilization of support for small enterprises and community co-operatives. The support is not necessary coming from the municipality but more funders are mobilized for both financial and non-financial aid. Some enterprises got support internally through the following:-

- Provision of bakery equipment to food co-operatives
- Training of co-operatives
- Workshops for tourism product owners and other SMME's
- Hawker training and development

Objective 3: Develop and market Mbhashe as a tourist destination in preparation for 2010 and beyond

Exploiting the comparative and absolute advantages brought by eco-tourism, many people from traditional communities have engaged themselves in craft production. In order for them to thrive, the municipality and other government departments intervened through provision of craft material and training. These initiatives are done so that they could move from ordinary traditional craft to commercial practice. To ensure production of good quality, competitions and shows of craft are usually held and sponsored by the municipality. Tourism awareness campaigns were also held in the coastal schools.

FINANCIAL VIABILITY

- Ensure that the Municipality is financially viable by 2012
This is the most difficult and daunting task in our municipality as the billing systems we use is failing us and sometimes leads to inaccurate billing.
- To ensure municipality gets unqualified Audit Reports by 2010
A concrete action plan was put forward at the start of the year to ensure that the municipality do get the unqualified audit report. Almost 60% of the queries that were raised by audit of the previous year were resolved and the municipality had difficulties resolving others because of some IT problems.

GOOD GOVERNANCE

Some of the objectives were the following:-

- Training, education and development of officials and councillors
There are plenty of courses and training workshops which were organised by the municipality for her employees and councillors.
- Strengthen the impact of Ward committees and CDW's
We always ensured that there are smooth relations between the municipality, the wards committees, the councillors, traditional leaders and the community development workers. To improve that co-ordination, meetings were held between these structures to ensure that there's smooth working relationship for effective service delivery.

PART 2: KPA ACHIEVEMENT REPORT

Chapter 1: HUMAN RESOURCE AND OTHER ORGANISATION MANAGEMENT

1.1 Presentation of the organizational structure (approved organogram)

The municipality has 154 approved posts in the organogram. The organogram is reviewed every year depending on the changing needs and circumstances in line with the IDP. Out of the 154, 17 remained vacant due to incapacity of the municipality to afford salaries beyond the 35% norm.

Due to the problems outlined in the overview, no performance agreements were signed in the municipality. The Mayor was not available for the signing of the Municipal Manager's performance agreement that will make him/her able to sign for the managers reporting to him.

1.2 Staff development initiatives during the Financial Year

The following is the list of courses or programmes that the municipality assisted her employees and councillors. The list is given on a table as shown below:-

NAME OF THE COURSE	SERVICE PROVIDER	CATEGORY OF PEOPLE	NUMBER
Masters in Public Management	University of Fort Hare	Employee	2
Certificate Programme on Management Development	University of Witwatersrand	Employees	4
Bachelor of Technology (HR) Management and Development		Employee	1
Bachelor of Commerce		Employee	2
National Diploma – Public Management		Employee	1
National Diploma – Local Government Finance			1
National Diploma: Public Management		Employee	1

Programme in taxation	Employee	1
Executive Leadership Management Development Programme (ELMDP)	Employee	5
Municipal finance	Employee	1
SAICA	Employee	5
Programme in Housing	Employee	3
Diploma in Labour Law	Employee	1
Population Development	Employee	1
Project Management	Councillors and Employees	

1.3 Key HR statistics per functional area

1.3.1 Full time staff complement per functional area

a. MM/Section 57 and Line Managers

	Approved positions (e.g MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	Municipal Manager – S57	1	-	1
2	Human Resources and Administration Manager – S57	1	1	-
3	Chief Financial Officer – S57	1	1	-
4	Land and Housing Manager – S57	1	1	-
5.	Strategic/IDP Manager – S57	1	1	-

6.	Community Services Manager – 57	1	1	-
	TOTAL	6	5	1
	Total			

a. Functional areas per organogram (E.g Technical Services)

	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
	TECHNICAL SERVICES DEPARTMENT			
1	Technical Services Manager – 57	1	1	
2	Project Manager - Roads	1	-	1
3	Project Manager - Building	1	-	1
4	PMU Manager	1	1	
5.	Foreman	3	-	3
6.	Plant Operator	3	2	1
7.	Roads Assistant	12	4	08
8.	Electrical Technician		-	1
9.	Artisan		-	1
10.	Plumber		-	1
11.	Roads Technician	2	2	
12.	Q.S Technician		-	1

13.	Finance and Administration Officer	1	1	
14.	Departmental Secretary	1	1	
15.	Roads Superintendent	1	1	
	Total	27	13	18

2 Technical staff registered with professional bodies

Technical Service (e.g water, electricity etc...)	Total number of technical service Managers	Total number registered in the accredited professional body	Total number pending registration confirmation in the accredited professional body	Total number not yet registered in the accredited professional body
Technical Services Manager	1			
PMU Manager	1			

COMMUNITY SERVICES DEPARTMENT – TRAFFIC SECTION

	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Community Services Manager	1	1	-
2.	Chief Traffic Officer	1	1	
3.	Traffic Officer - Testing	2	1	1
4.	Traffic Officer – Law Enforcement Supervisor	3	-	3
5.	Safety and Security Officer	1	-	1

6.	Grade L Examiner	1	1	-
7.	Traffic Warden	14	13	1
8.	E-Natis Clerk	1	1	-
9.	Departmental Secretary	1	1	-
	TOTAL	25	19	5

COMMUNITY SERVICES DEPARTMENT –POUND SECTION

	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Pound Master	1	1	
2.	Pound Assistant	8	1	7
3.	Senior Community Services Officer	1	-	1
	TOTAL	10	2	8

COMMUNITY SERVICES DEPARTMENT –WASTE MANAGEMENT SECTION

	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Environmental Officer	1	-	1
2.	Driver/Supervisor	5	4	1
3.	Amenities Supervisor	1	-	1
4.	General Assistant	26	39	-

5.	Refuse Assistant	15	15	-
	TOTAL	48	58	3

BUDGET AND TREASURY DEPARTMENT – SUPPLY CHAIN MANAGEMENT SECTION				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Senior SCM Practitioner	1		1
2.	Procurement Officer	1	1	
3.	Asset Clerk	1	1	
4.	Assets and Fleet Officer	1	1	1
5.	Procurement Clerk (Buyer)	1	1	1
6.	Acquisition Clerk	1	1	1
7.	Stores Clerk (Receiving and Dispatching)	2		2
	TOTAL	8	5	6

BUDGET AND TREASURY DEPARTMENT –REVENUE SECTION				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Revenue Accountant	1	1	
2.	Indigent Support Officer	1		1

3.	Customer Care Clerk	1	1	
4.	Debtors Controller	1		1
5.	Billing Clerk	1	1	
6.	Cashier	3	3	
	TOTAL	8	6	2

BUDGET AND TREASURY DEPARTMENT –EXPENDITURE SECTION				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Senior Accountant	1	1	
2.	Expenditure Accountant	1	1	
3.	Expenditure Controller	1		1
4.	Expenditure Clerk	1	1	
	TOTAL	4	3	1

BUDGET	BUDGET AND TREASURY DEPARTMENT –BUDGET SECTION			
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts

1.	Budget and Treasury Officer	1	1	
2.	Budget and Treasury Clerk	1		1
	TOTAL	2	1	1

BUDGET AND TREASURY DEPARTMENT –INFORMATION AND COMMUNICATION SECTION				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Senior ICT Administrator	1		1
2.	ICT Technician	1	1	
3.	ICT Webmaster	1		1
	TOTAL	3	1	2

STRATEGIC/IDP/LED DEPARTMENT				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Strategic/IDP/LED Manager			

2.	IDP/LED Coordinator	1	1	
3.	LED Officer – Tourism	1	1	
4.	LED Officer – SMME	1	1	
5.	LED Officer – Agriculture	1	1	
6.	IDP/PMS Officer	1		1
7.	Departmental Secretary	1	1	
	TOTAL	6	5	1

LAND AND HOUSING DEPARTMENT				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Land and Housing Manager	1	1	
2.	Senior Land and Housing Officer	1	1	
3.	Housing Officer	1	1	
4.	Officer – Land Use Management	1		1
5.	Property Clerk	1	1	
6.	Departmental Secretary	1	1	
	TOTAL	7	5	1

HR AND ADMINISTRATION DEPARTMENT – HUMAN RESOURCES				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	HR and Administration Manager	1	1	
2.	Senior HR Officer	1	1	
3.	Senior Payroll Officer	1		1
4.	Personnel Officer	1	1	
5.	Health and Safety Officer	1		1
6.	Payroll Officer	1	1	
7.	HR Clerk	1		1
8.	Departmental Secretary	1	1	
9.	Skills Developmental Facilitator	1		1
	TOTAL	9	5	4

HR AND ADMINISTRATION DEPARTMENT – ADMINISTRATION SECTION				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per	Filled posts	Vacant posts

		position		
1.	Administrator	1		1
2.	Unit Administrator	2		2
3.	Records Officer	1	1	
4.	Records Clerk	1		1
5.	Committee Clerk	2	2	
6.	Council Support Clerk	3	1	2
7.	Council Driver	1	1	
8.	Messenger	2	2	
9.	Office Cleaner/Teamaker	9	8	1
	TOTAL	22	15	7

OFFICE OF THE MUNICIPAL MANAGER				
	Approved positions (Ex: Managers/Asst. Mgers)	Number of approved posts per position	Filled posts	Vacant posts
1.	Office Coordinator	1	1	
2.	Compliance and Legal Officer	1		1
3.	Officer – SPU	1	1	
4.	Communications Officer	1	1	
5.	Monitoring and Evaluation	1		1

	Officer			
6.	Public Liaison and Marketing Officer	1		1
7.	EAP Practitioner	1		
8.	Principal Accountant	1	1	
9.	Internal Auditor	1		1
10.	Secretary to MM	1	1	
11.	Secretary to the Speaker	1		1
12.	Mayoral Driver	1	1	
12.	Driver for the Office of the Speaker	1		1
13.	Secretary to the Mayor	1	1	
	TOTAL	14	7	4

1.3.2 Levels of education and skills

Total number of staff	Number of staff without Grade 12	Number of staff with Senior Certificate only	Number of staff with Tertiary/accredited professionals training
140	69	18	53

1.3.3 Trends on total personnel expenditure

Financial Years	Total number of staff	Total approved operating Budget	Personnel expenditure (salary and salary related)	Percentage of expenditure
2006-2007	104	42 460 598		
2007-2008	128	54 768 142	27 060 245	49%
2008-2009	154	90 540 172	35 129 586	34.8%

1.3.4 List of pension and medical aids to whom employees belong

Names of pension fund	Number of members	Names of medical Aids	Number of members
1. Eastern Cape Group Municipal Pension Fund	69	LA Health Medical Aid Scheme	14
2. South African Municipal Workers Union (SAMWU) National Provident Fund	59	Bonitas Medical Aid Scheme	19
		SAMWUMED	08
		Hosmed Medical Aid Scheme	27
		Keyhealth Medical Aid Scheme	01

1.4 IMPLEMENTATION OF THE PERFORMANCE MANAGEMENT SYSTEMS (PMS)

The municipality did review of the Performance Management Framework was adopted in March 2009. The process of implementation started with the signing of Performance Agreements by the Municipal Manager and managers reporting to the Municipal Manager. The performance agreements were drawn after the SDBIP scorecards have been finalised, and the scorecards form part of the performance agreements.

Beyond the signing of performance agreements, the process of implementation of PMS could not take place. There were challenges such as these:-

- Cascading the PMS to lower levels of management
- Quarterly reports were not prepared
- The municipality in the year under review did not have the Performance Audit Committees as a result assessments and performance reviews were not conducted. However, no performance bonuses were paid.

The municipality is preparing for the full implementation of the PMS by cascading PMS to all levels. The first step was the adoption of the Framework in March 2010. The SDBIP and the scorecards were drawn and the performance audit committee established. The full report on the implementation of PMS will be reported on the 2010/11 Annual Report.

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

	Indicator name	Total number of people (planned for) during the year under review	Achievement level during the year under review	Achievement percentage during the year	Comments on the gap
1	Vacancy rate for all approved and budgeted posts;	154			
2	Percentage of appointment in strategic positions (Municipal Manager and Section 57 Managers)	6			
3	Percentage of Section 57 Managers including Municipal Managers who attended at least 1 skill development training course within the FY				
4	Percentage of Managers in Technical Services with a professional qualification				
5	Percentage of municipalities that have adopted the Performance Management System within the district area (DM only)	N/A			
8	Percentage of staff that have undergone a skills audit (including competency profiles) within the current 5 year term	0			

9	Percentage of councillors who attended a skill development training within the current 5 year term				
10	Percentage of staff complement with disability				
11	Percentage of female employees				
12	Percentage of employees that are aged 35 or younger				

1.6 Major challenges and remedial actions in regard to human resource and organizational management

Regarding the human resource and organisational management, the following are the main challenges:-

- There's no Human Resource Strategy
- Salaries are very low and not attractive
- There's limited budget for salaries which leads to more vacancies

Some of the remedial actions required involve:-

- Development of the Human Resources Strategy is required
- Development of the retention strategy is important
- There's an need to concentrate more on LED and increase rate of collection

Chapter 2: BASIC SERVICE DELIVERY PERFORMANCE HIGHLIGHTS

2.1 WATER SERVICES

BACKGROUND

Dutywa Town has been experiencing water crisis since March 2010. Water supply was on and off during the period of March 2010 to April 10. From May 2010 only once for about a week there was continuous supply but was sporadic.

The Facts behind the crisis

ADM identified in 2008 that the three Dams, the main water source for Dutywa and surrounding villages were getting depleted due to drought. At the time all the three Dams had water levels less than 50% full. With time the situation go further worse and currently, the Mputi Dam has dried out, Ngxakaxa Dam is 10% full whilst the Golf Course dam is 3% full resulting in the collapse of the whole supply system.

Measure – Contingency

The ADM has taken an initiative of providing water for the town by laying a pipeline from Hlobo Water Supply Project and is supposed to be commissioned by August 2010 and hopefully the town will start getting water from. The supply will not be very much reliable because of the size of pipe though it is expected that it would continue till commissioning of the ultimate supply system is in place as detailed below. The challenge is the source of water for the Hlobo Water Supply system is XILINXA DAM which also supplies Butterworth and is also getting depleted.

The ADM has a plan to sensitize the people of the town about the situation by tomorrow (26 August 2010).

Long term Measure

The Mgwali Water Supply Project started in August 2010 with target of completion by July 2011 will be the main supply of water to Dutywa .The Mbhashe North Water Supply scheme is also underway and will complement this one on completion. The completion of Mgwali Water Supply project will ease water supply situation of Dutywa Town and surrounding villages. The completion of the other project s will further ease water supply situation of Dutywa Town and surrounding villages.

(B) Levels and standards in water services:

Annual performance as per key performance indicators in water services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the FY under review (actual numbers)	Number of HH/customer reached during the FY	Percentage of achievement during the year
1	Percentage of households with access to potable water	18	125000	42000	8000	
2	Percentage of indigent households with access to free basic potable water	11	52000	30000	10 000	
4	Percentage of clinics with access to potable water	10	28	6	988,281	
5	Percentage of schools with access to potable water	3	363	0		
6	Percentage of households using buckets	13	6000	2500	1000	

2.2 Electricity services

2.2.1 Electricity services delivery strategy and main role-players

The main role players with regard to electrification are the following:-

- Mbhashe Municipality
- Eskom
- Department of Minerals and Energy

The municipality's role with regard to electricity is only the prioritization of areas to be electrified as required in terms of the IDP and the municipality's development objectives and priorities.

2.2.2 Level and standards in electricity services

The municipality area has a very huge backlog in electricity provision; about 50% of Mphashe households do not have access to electricity. About 3000 households were targeted during the 2009/2010 financial year but due to Eskom's challenges, Eskom only managed to continue with the targets set for 2008/2009.

Only Eskom is the sole provider of electricity and the municipality is not capable to provide electricity in her.

2.2.3 Annual performance as per key performance indicators in Electricity services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the f. year under review (actual numbers)	Number of HH/customer reached during the FY	Percentage of achievement during the year
1	Percentage of households with access to electricity services	13	50 000	15000	8000	
2	Percentage of indigent households with access to basic electricity services	10	38000	12000	5000	
4	Percentage of indigent households with access to free alternative energy sources	4	15000	4000	2500	

2.2.4 Major challenges in electricity services and remedial actions

Challenges regarding the provision of electricity relates to the one that is provided by DME through the municipality. This has affected the provision

- Late transfer of the funds by the Department of Energy resulted in the delay of the project starting. The first transfer was done end of year just before the Annual industrial shut down. The project officially started in mid-January 2010.

Remedial action was the following

- Extra resources and man power had to be deployed on site in order to bring the project back to schedule.

2.3 Sanitation (max 2 pages)

2.3.1 Sanitation services delivery strategy and main role-players

Briefly mention the municipality role in regard to sanitation services delivery. Present the players involved and their role in sanitation provision within the municipality.

2.3.2 Level and standards in sanitation services

This section presents the municipality definition of low and high level access to sanitation services by the population as well as the low and high quality standard of sanitation provision. This understanding of the level and standard should be the justification for setting yearly targets and reporting achievements.

2.3.3 Annual performance as per key performance indicators in sanitation services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the f. year under review	Number of HH/customer reached	Percentage of achievement during the year
1	Percentage of households with access to sanitation services	15	40 000	14000		
2	Percentage of indigent households with access to free basic sanitation services	6	8500	8500	3000	
4	Percentage of clinics with access to sanitation services	44	28	6	988,281	
5	Percentage of schools with access to sanitation services	3	363	0		

2.3.4 Major challenges in sanitation services and remedial actions

In this section the municipality is expected to clearly indicate the challenges relating to sanitation services' provision within its jurisdiction and propose what needs to be done to address them.

2.4 Road maintenance

2.4.1 Road maintenance services delivery strategy and main role-players

The role of the Municipality with regards to road maintenance is to

1. Provide Mbhashe residents with the realistic expectations on service levels concerning road infrastructure.
2. To ensure that minimum standards of maintenance are adhered to
3. To look for external resources in augmenting the limited resources of the Municipality in maintaining the infrastructure.
4. To maintain the road network on a yearly basis.

2.4.2 Level and standards in road maintenance services

2.4.2.1 Annual performance as per key performance indicators in road maintenance services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the year under review (Actual numbers)	Number of HH/customer reached during the FY	Percentage of achievement during the year
1	Percentage of households without access to gravel or graded roads	80	48 000	6600	6600	100
2	Percentage of road infrastructure requiring upgrade	75	900km	150km	7500	-
3	Percentage of planned new road infrastructure actually constructed	25	300km	150km	7500	100
4	Percentage of capital budget reserved for road upgrading and maintenance effectively used.	03	1164km	150km	7500	-

2.4.2.2 Major challenges in road maintenance services and remedial actions

The main challenges are

1. Lack of equipment
2. Lack of financial resources

Currently the Municipality has approached the department of roads and public works for funding; a service level agreement is due to signed shortly in this regard.

2.5 WASTE MANAGEMENT

2.5.1 Waste management services delivery strategy and main role-players

REFUSE REMOVAL

Mbhashe municipal refuse removal operates within the urban areas of the three towns of Dutywa, Willowvale and Elliotdale and the major focus is on general waste minimization and reduction. These towns are in Ward 1, 13 and 25.

Trucks are used to collect and dispose waste with five refuse assistants in each truck with each driver also employed as a supervisor for the team.

Ward 1(DUTYWA)

The municipality operates with a team of 36 people including 8 supervisors. They are using two trucks that are currently old and costly for maintenance.

The area does not have a licensed disposal site and is currently using an illegal less protected dump site that is a health hazard.

For refuse reduction a company called Cholakonke Recylers has secured funding from Buyisa e-bag and has started collecting already.

Environmental Affairs has contributed R5m towards cleaning and beautification of Dutywa town and has employed 74 people with 66 people responsible for 1,2km area along the N2 and 2,1km area on R408 route.

Amathole District (ADM) municipality has budgeted R250000 for construction of a transfer station and is supposed to be completed by June 2011.

Funding for rehabilitation of the dump site remains a challenge.

Ward 13 (ELLIOTDALE)

Elliotdale has a licensed landfill site that has started operating , but the dumpsite that was previously used for disposal is not fenced and needs urgent attention the municipality has no budget for rehabilitation but an amount of R100 000,00 that is going to be spent on fencing the area so that it is not easily accessible to animals and scavengers.

A tractor drawn trailer is used to dispose waste to the landfill site .The area is also troubled by aging sewerage pipes from septic tanks in town that ends up running into the Xhora river which runs to the sea with many people in the rural areas drinking from the river.

Alien plant species ranging from gum trees, lantanas, wattles and other aliens have invaded the area and need to be eradicated for cleaner environment.

Stray animals from neighbouring villages are challenges more rangers and a high quality pound yard with all pound facilities could reduce the trespassing of livestock.

There are no recycling projects taking place except for isolated cases of illegal scavenging.

Ward 25(WILLOWVALE)

Willowvale town currently use an open veld for waste disposal and is not protected. A R250 000 project funded by ADM is busy with construction of a transfer station for the area and has been promised completion by June 2011.Rehabilitation of the dumping site will remain a challenge for the municipality.

The area is cleaned by 14 general assistants with one truck.

The biggest challenge in the area is alien trees all over town and an amount of R300000, 00 has been put aside into the municipal IDP but will not make a big difference.

2.5.2 Level and standards in waste management services

This section presents the municipality definition of low and high level access to waste management services by the population as well as the low and high quality standard of waste management service. This understanding of the level and standard should be the justification for setting yearly targets and reporting achievements.

2.5.2.1 Annual performance as per key performance indicators in waste management services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the f. year under review	Number of HH/customer reached	Percentage of achievement during the year
1	Percentage of households with access to refuse removal services					

2.5.2.2 Major challenges in waste management services and remedial actions

Infrastructure

CHALLENGES	REMEDIAL ACTION
Illegal dump sites	Fund raising for rehabilitation of dumping sites & construction & completion of Willowvale & Dutywa transfer stations.
Motor vehicles and trucks are old and costing on maintenance	Budgeting for new fleet

Education and Awareness

CHALLENGES	REMEDIAL ACTION
Local people not aware of their responsibility of a healthy and clean environment	More clean up awareness campaign
Difficult to recruit people with waste related qualifications	Introduce waste related learnerships and other initiatives

2.6 Housing and town planning

2.6.1 Housing and town planning services delivery strategy and main role-players

Housing section's goal is to establish and maintain adequate shelter and sustainable residential environment and communities of Mbashe Local Municipality as constitutional requirement and also provide other amenities i.e. access to clean water, sanitation, electricity, roads and other amenities. In terms of sec 26 of the Constitution of the Republic of South Africa, everyone has the right to have access to adequate housing.

According to the Housing Act 107 of 1997 section 8 (1) (f), every municipality must, as part of the municipality's process of IDP, take all reasonable and necessary steps within the framework of national and provincial housing legislation and policy to initiate, plan, coordinate, facilitate, promote and enable appropriate housing development in its area of jurisdiction.

Functions of the Municipality are the following:

- Identify beneficiaries
- Identification of land (as per Housing Sector Plan in the IDP)
- Prioritise projects

- The Municipality plays the role of the developer i.e the developers submits a project application to the MEC making use of procurement documents, agreements, and /or contracts when applying for the project and the implementation thereof.
- The Municipality undertakes all planning and project activities.
- May select service providers with the Provincial Department of Human Settlement
- May be service providers, provided that they have the obligatory capacity as defined in the capacity model developed by the Prov. Dept.
- Approve Engineering Designs with the Department
- And any other role determined by the MEC and a Municipality.

STAKEHOLDERS INVOLVED IN HOUSING DEVELOPMENT

- Beneficiaries
- Mbashe Local Municipality (act as a developer)
- Amathole District Municipality (assisting the MLM in the construction of services)
- Funders (e.g. Provincial Department of Human Settlement, implementation partners, relevant government departments (e.g Dept. of Water Affairs, Strategic partners i.e Teba Development for contract management and Development Bank of South Africa as implementing agent on Rural Housing project in Elliotdale)
- Professional teams (Town Planners, Engineering Consultants, Land Surveyors, Project Managers)
- Municipal Councillors
- Traditional leaders
- Community Development Workers

2.6.2 Level and standards in Housing and town planning services

This section presents the municipality definition of low and high level access to housing and town planning services by the population as well as the low and high quality standard of housing and town planning services. This understanding of the level and standard should be the justification for setting yearly targets and reporting achievements.

2.6.3 Annual performance as per key performance indicators in housing and town planning services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (Actual numbers)	Target set for the f. year under review	Number of HH/customer reached	Percentage of achievement during the year
1	Percentage of households living in informal settlements	8 505	8 505			

2	Percentage of informal settlements that have been provided with basic services					
3	Percentage of households in formal housing that conforms to the minimum building standards for residential houses	7 853	23000	200	200	

2.6.4 Major challenges in housing and town planning services and remedial actions

- Poor workmanship and product of emerging contractors
- Low quality of completed units and the large number of incomplete housing units
- Lack of serviced land
- Death of beneficiaries before occupying their houses
- Insufficient integration of efforts among the different spheres of Government and among the various departments within the local authority.
- Unresolved land issues
- The housing backlog
- Lack of funds for bulk infrastructure
- Lack of staff capacity
- The Emerging Contractors (Local Builders) who were utilized in old projects lacked capacity and thus resulted in delays as well as slow production rate.
- Local Builders were not interested to work for the old projects due to low budget margin. The Municipality found it difficult to complete the blocked projects within a given time as they had to depend on learner builders in the area who did not have much building knowledge.

REMEDIAL ACTIONS

- Municipalities are attacked with policies, legislation, goals. Objectives and strategies that can be overwhelming and difficult to interpret and implement. Therefore municipal housing staff members should be supported as much as possible through capacity building and support.
- Political interference must be minimised and even ruled out.
- Staff capacity should be enhanced by means of education, training and mentoring.
- Delivery must be speeded up in order to achieve the quantity and quality delivery targets and improve people's quality of life and dignity

2.7 Spatial planning

2.7.1 Preparation and approval process of SDF:

Spatial planning aims to positively shape the way any city develops in space into the future. It includes the preparation of plans that will guide the physical development of that particular city (where, what and when).

Spatial plans are used to assess applications submitted by property developers. They also guide changes in land-use rights and guide public investment in infrastructure.

Spatial plans do not however, give or take away land use rights.

The implementation of these plans relies on partnerships between the private sector, communities and other spheres of government.

A SDF is therefore a useful and effective tool with which to manage and monitor growth and development in the city, and informs investors about what they are 'buying' and where development opportunities exist in the short and longer term.

It will offer predictability, as once it has been approved by the full Council and the Provincial Government, it will be the basis on which the officials decide on new development proposals.

The SDF plan is to fulfil the following:

- Direct decision-making that may impact on the Municipal area.
- Direct development investment to areas that would ensure the most sustainable return of investment.
- Guide development in a spatially efficient way, ensuring linkage and alignment to regional and national development policies and programmes.
- In response to specific trends and dynamics, direct investment to areas of greatest potential and to target areas of greatest need so as to promote economic growth and alleviate poverty.
- Ensure improved linkages within Mbhashe and beyond its boundaries to stimulate effective and sustainable integrated development.
- Protect natural systems in Mbhashe.

2.7.2 Land use management

2.7.2.1 REZONING

The department of land and housing has embarked on a process of finalizing the land use regulation document by means of a proper land use zones. This project will help minimizing the illegal use zones as per individual erven. Rezoning are processed using Transkei Standard Town Planning Scheme - 1984

Plans have been adopted by Mbhashe Council. They will be published in the Government Gazette wherewith after they will be enforced.

2.7.2.2 REMOVAL OF RESTRICTIVE CONDITIONS

Where necessary conditions on any title deed are been removed in terms of the relevant Act

2.7.2.3 TOWNSHIP ESTABLISHMENTS

The municipality has processed a number of applications for the township ship establishment for various areas. We have exercised all legislations for this kind of development such:

1. Development facilitation Act – 67 / 1995
2. Less Formal Township Establishment Act – 113 / 1991
3. Townships Ordinance – 33 / 1934

2.7.2.4 SUBDIVISIONS

The department is currently busy with the surveying of all land that has not been surveyed. The objective is to allocate the erf number to all municipal owned land and to regulate illegal demarcation of municipal commonage. Land is subdivided using Townships Ordinance – 33 / 1934

2.7.3 Major challenges in spatial planning services and remedial actions

Challenge

- Lack of detailed spatial plans to direct future development of priority development areas.

Remedial action

- Secure funding to undertake detailed spatial plans for other priority areas in Mbhashe. Secure funding to undertake detailed spatial plans for other priority areas in Mbhashe.

2.8 Indigent policy implementation

The municipality has adopted a policy on indigent after consultations have been made with relevant stakeholders. The municipality is implementing the indigent policy by provision minimum electricity required to the needy households. With the areas where there's no electricity the policy makes a

provision for the distribution of alternative energy. The council agreed that the alternative energy that is mostly used by households in the area is paraffin and wood and therefore paraffin must be the one provided to households.

To implement the policy, the indigent register that is supplied by the ward councillors to the municipality is used to get the recipients. In most cases, the list is not authentic and does not reflect the correct beneficiaries but had to rely on it as there's no method fair enough to have the list. Most of the time, this has caused confusion, chaos and created squabbles and tensions amongst the people.

A new strategy which will involve the department of Social Development will be derived in the coming year.

2.9 Overall service delivery backlogs

Basic service delivery area	30 June 2009			30 June 2010		
	Required	Budgeted	Actual	Required	budgeted	Actual
Water backlogs (6KL/month)						
Backlogs to be eliminated (n0. HH not receiving the minimum standard service)	N/A	N/A	N/A	N/A	N/A	N/A
Backlogs to be eliminated (%: total HH identified as backlog/total number of HH in the municipality)						
Spending on new infrastructure to eliminate backlogs (R000)						
Spending on renewal of existing infrastructure to eliminate backlog (R000)						
Total spending to eliminate backlogs (R000)						
Spending on maintenance to ensure no new backlogs (R000)						
ELECTRICITY BACKLOGS (30KWH/Month)	REQUIRED	BUDGETED	ACTUAL	REQUIRED	BUDGETED	ACTUAL
Backlogs to be eliminated (No. HH not receiving the minimum standard service)						
Backlogs to be eliminated (%: total HH identified as backlog/total number of households in the municipality)						
Spending on new infrastructure to eliminate backlogs (R000)						

Spending on renewal of existing infrastructure to eliminate backlog (R000)						
Total spending to eliminate backlogs						
Spending on maintenance to ensure no new backlog (R000)						
SANITATION BACKLOGS	REQUIRED	BUDGETED	ACTUAL	REQUIRED	BUDGETED	ACTUAL
Backlogs to be eliminated (No. HH not receiving the minimum standard service)						
Backlogs to be eliminated (%: total HH identified as backlog/total number of households in the municipality)						
Spending on new infrastructure to eliminate backlogs (R000)						
Spending on renewal of existing infrastructure to eliminate backlog (R000)						
Total spending to eliminate backlogs						
Spending on maintenance to ensure no new backlog (R000)						
ROAD MAINTENANCE BACKLOG	REQUIRED	BUDGETED	ACTUAL	REQUIRED	BUDGETED	ACTUAL
Backlogs to be eliminated (No. HH not receiving the minimum standard service)						
Backlogs to be eliminated (%: total HH identified as backlog/total number of households in the municipality)						
Spending on new infrastructure to eliminate backlogs (R000)						
Spending on renewal of existing infrastructure to eliminate backlog (R000)						
Total spending to eliminate backlogs						
Spending on maintenance to ensure no new backlog (R000)						
REFUSE REMOVAL	REQUIRED	BUDGETED	ACTUAL	REQUIRED	BUDGETED	ACTUAL
Backlogs to be eliminated (No. HH not						

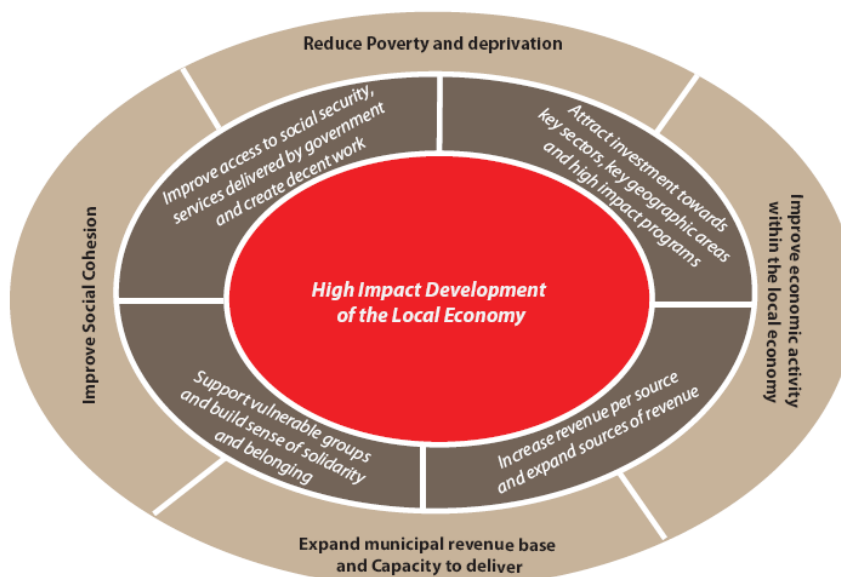
receiving the minimum standard service)						
Backlogs to be eliminated (%: total HH identified as backlog/total number of households in the municipality						
Spending on new infrastructure to eliminate backlogs (R000)						
Spending on renewal of existing infrastructure to eliminate backlog (R000)						
Total spending to eliminate backlogs						
Spending on maintenance to ensure no new backlog (R000)						
HOUSING AND TOWN PLANNING	REQUIRED	BUDGETED	ACTUAL	REQUIRED	BUDGETED	ACTUAL
Backlogs to be eliminated (No. HH not receiving the minimum standard service)						
Backlogs to be eliminated (%: total HH identified as backlog/total number of households in the municipality						
Spending on new infrastructure to eliminate backlogs (R000)						
Spending on renewal of existing infrastructure to eliminate backlog (R000)						
Total spending to eliminate backlogs						
Spending on maintenance to ensure no new backlog (R000)						

CHAPTER 3: MUNICIPAL LOCAL ECONOMIC DEVELOPMENT FRAMEWORK- (KPA 3)

3.1 Brief presentation of LED strategy/plan

3.1.1 Overview of the LED Strategy of the Municipality

The Local Economic Development Strategy of the municipality will be predicated on the following:



This LED Strategy seeks to conceptualise a program to conceptualise high impact development programs focusing on the following:

- Improving access to social security, services delivered by government and creating decent work: government is the last line of defence for the poor and marginalised who are sometimes pushed to the periphery of society by poverty and underdevelopment of their areas. Whilst Mbhashe municipality has a recorded high dependency ratio on social security programs, there is a need to ensure that those who deserve to have access to these programs are assisted to access social security programs. The efficient delivery of services by the municipality and strong coordination with other spheres of government active in the municipal area is critical in the improvement of the quality of life of residents.

The municipality has to ensure that it uses its expenditure on goods and services and compensation as a tool for creating decent work within the local economy.

- Support vulnerable groups and build a sense of solidarity and belonging: the legacy of apartheid and systematic underdevelopment of areas under the jurisdiction of the municipality is amplified when it comes to women, youth, people with disabilities, etc. There is a need to have programs directed at uplifting economically these groups of people whilst also restoring the values of Ubuntu such as sharing, solidarity and respect for humanity. It is therefore submitted that programs need to have both an economic dimension and a social development dimension to create a cohesive community.
- Attract investment towards key sectors, in defined geographic areas and high impact programs: The municipality must through this strategy define a few key sectors where the municipality has a competitive edge and can use those sectors as a catalyst for effective economic development in defined geographic areas and with specific programs around which investment will be mobilised.
- Increase revenue per source and expand revenue base of the municipality: the initiatives pursued by the municipality must improve the ability of the municipality to collect more resources and extract more value on the existing revenue sources whilst also expanding this base through creating new rate payers, etc.

All these interventions must achieve the following:

- Reduce poverty and deprivation
- Improve economic activity in the local economy
- Improve social cohesion
- Expand the revenue base of the municipality and its capacity to deliver

Targeted areas for investment and major economic potentials for Mbhashe includes:-

- Agricultural Development
- Fishing
- Mining and quarrying
- Transport facilities
- Bio-fuels
- Mariculture
- Tourism

- Building, construction and roadwork
- Indigenous Medicinal plants
- Manufacturing and SMME
- Forestry

3.1.2 LED UNIT

Mbhashe Municipality has established the unit within the municipality and assisted in the establishment of other organisations which offer potential benefits for the management, implementation and monitoring of LED programmes and/or projects.

The Municipal LED unit is composed of the following staff:-

1. Manager (s57)
2. LED Co-ordinator
3. LED Officer: Tourism (as tourism specialist)
4. LED Officer: Agriculture (as agricultural specialist)
5. LED Officer: SMME (as small business management specialist)

In addition to LED, the unit deals with the Integrated Developmental Planning, the Performance Management Systems and the Integrated Governmental Relations. The unit therefore has this additional staff:-

1. IDP/PMS Officer (Vacant)
2. Administrator

3.1.3 LED FORUM FUNCTIONALITY

There are other institutions that work with and closely with the municipality in implementation of LED programmes and projects, there's a structure that involves many other stakeholders i.e. the LED forum. All these organizations are required by council resolution to report their activities in the LED forum. The forum is composed of:

- Mbhashe LED standing committee Councillors
- Mbhashe LED officials
- Local Tourism Organisations
- Community trusts
- Co-operative Forum
- Mbhashe Farmers Association
- Community Based Organisations dealing with LED

- Local Business Forum
- Government institutions dealing with economic development

However, there were no meetings of the forum in the year under 2009/2010, there were only special meetings where the LED strategy was tabled as a draft for discussions. The meetings of the forum could not be held because of the unavailability of representatives from various stakeholders.

3.2 Progress towards achieving the LED key objectives

3.2.1. IMPROVING PUBLIC AND MARKET CONFIDENCE

3.2.1.1 SPATIAL DEVELOPMENT FRAMEWORK

Through the SDF, the municipality was able to open spaces in promotion of investment opportunities and creating market confidence. The SDF has opened more land for commercial purposes. The Council has approved the following lease agreements in respect of development to private investors for commercial purposes:-

1. Ace Ncobo development

In addition to that, the council has also approved rezoning of land; the majority of applications were applications for change from household to commercial property. The following are the approved rezoning applications:-

1. Erf 1645 in respect of a filling station
2. Erf 153, 154 and 156 consolidated and rezoned in respect of a commercial enterprise
3. Erf 127, 128 and 129 consolidated and rezoned in respect of banking facilities

3.2.1.2 RED TAPE REDUCTION

Without taking the route of the project, that is, "Red Tape Reduction", the municipality has over the past year resolved that the Municipal Manager in consultation with the Head of the Department must accept the rezoning applications if they comply with the Spatial Development Framework of the municipality.

3.2.1.3 INVESTMENTS AND TRADING BY LAWS

Generally, all the by-laws that were prepared and made public which include the Street Trading and other by-laws were found not to be gazetted and cannot function. A strategic direction has been taken to prepare other by-laws and review the other ones before a proper procedure which will ultimately lead to gazettement is being done. The next annual report will fully cover the effect and state of implementation of those by-laws.

3.2.1.4 MAINTENANCE OF BASIC INFRASTRUCTURE

Improving the quality of roads in our municipality is the priority set by council. The problem is the backlog on the rural roads which were largely not done before; this phenomenon leads the municipality into prioritising the rural roads. To reduce the backlog in the three towns, the municipality has undertaken to do the town roads every financial year. In the year under review, the road which was

supposed to be done is Willowvale CBD; however the contractor failure led to municipal failure to provide road on the street named.

3.2.1.5 MARKET CENTRES

In the year under review, the council adopted the improvement of infrastructure relating to LED. The construction of Market centres for both Willowvale and Dutywa towns has been approved form MIG funds. The process is being handled by the Engineering department of the municipality.

Again in Dutywa, the council has approved the enlargement of the VIC (Tourist Information Centre) so that the centre could also cater for businesses like Internet Café, Traveling Agency etc.

Also in the council programme is the establishment of farmer support centre and the wool shed for the wool growers in the Dutywa area. This centre will be used for storing and bulk transportation of wool to other market places.

3.2.1.6 DISASTER MANAGEMENT

The disaster management is the function of the Amathole District Municipality but the municipality's community services section helps with the co-ordination of activities in case of disasters. Currently the municipality does not have the disaster management plan which will assist in drawing lines between what can and should be done by the municipality.

3.2.2 COMPARATIVE AND COMPETITIVE ADVANTAGE FOR INDUSTRIAL ACTIVITIES

The municipality's comparative and competitive advantages as expressed in the IDP are as follows:-

- Maize
- Vegetable
- Tourism

3.2.2.1 MAIZE PRODUCTION

The municipality in partnership with the farmers is engaged on a massive maize production programme. The programme is done in a way which will not collide with the Department of Agriculture's massive production. The programme is called "Silimile", and was implemented in 25 wards, where the ward identifies a 50ha area. The wards participating in the programme currently are 25. Tractors are then clustered together for that particular area; the farmers provide money to buy fuel and pay for the driver and the municipality co-ordinates, provides the fertilizer and seed for all the 50ha in 25 wards.

ASGISA – EC further boosted the programme through their support of 200ha area in Nqadu. The intention of the municipality is to engage the private sector on secondary processing of the maize. On the pipeline is the establishment of feedlots where the maize can be used for animal feed.

3.2.2.2 VEGETABLE PRODUCTION

Huge support from the municipality went to the Co-operatives and Siyazondla groups across the municipality. The programme involved the supply of seeds and seedlings to the mentioned groups.

With the bulk of vegetables produced, people use it for household consumption and the remainder is usually sold. The produce is usually huge and could not all be sold; hence the introduction or establishment of the Agri-park. The agri-park will serve as market for the produce from the vegetable farmers and help process the vegetables into soup and other products. At the time of reporting, problems such as electrical voltage in the park hinder production process and the vegetable produced at the park are transported to Alice where the production plant is up and running.

3.2.2.3 TOURISM

The municipality has beautiful landscape which attracts investors and tourists along the coastal route in the wild coast. The municipality has therefore supported different initiatives which will help unleash tourism and investment potential of the region. Initiatives supported during the year are as follows:-

- Feasibility and business planning for the establishment of the Gcaleka Cultural and Tourism centre
- Co-ordinating through the Project Advisory Committee the establishment and construction of the Qatywa Community Lodge and Tourism Centre
- Assisting the Nqabara Community Development Trust in finding an investor towards the establishment of the Nqabara Lodge.
- Struggling in vain to resolve the conflict involving the community and the Dwesa Cwebe Community Land Trust and bringing in the private investor to help boost the tourism potential of the area. This was to be done by major renovations and reconstruction of Dwesa chalets and Haven Hotel respectively.

3.2.3 Enterprise support and business development

3.2.3.1 BUSINESS DEVELOPMENT PROVIDED TO SMME'S

The support that is provided to SMME's is twofold, that is, there are two types of SMME's as envisaged by the municipality. These are:-

- Co-operatives

- Business Community

CO-OPERATIVE DEVELOPMENT

- R300 000 was used for the supply of stock medicine to the organised farming community. This is done by collection of donations from a village red-meat association for each animal that is going to receive medicine. The amount collected is then banked on the name of the association who then assist each other when there's an outbreak of a disease.
- R120 000 was used for the renovation of dipping tanks for the organised farming community. The three dipping tanks that received support were Kugoqo, Bafazi and Lower Mbangcolo.
- R120 000 was used for the renovation of stock dams in the Willowvale wards. This is also done to assist the red-meat farmers.
- Eight co-operatives each received material and equipment worth R60 000. All those co-operatives are involved in baking and they mainly received baking stoves.
- Training on co-operative development, co-operative formation, and its constitution was offered to the two co-operatives at Elliotdale (ward 20 and 16).
- Eleven co-operatives who specialise on craft were trained on craft and also received craft material. The training took a period of a week in each magisterial district i.e. Dutywa, Willowvale and Ellitodale. The craft material alone costed R90 000 and training at different times costed around R300 000.

MICRO-ENTERPRISES

- A workshop was organised for those who mainly do business with the municipality through tenders. The workshop was addressed by Eastern Cape Development Corporation (ECDC), Small Enterprise Development Agency (SEDA) and Eastern Cape Industrial Chamber and Mbhashe Municipality. This was intended to empower the SMME's on finance, tendering i.e. filling in of documents, understanding the Supply Chain Policy, business proposal and business plan writing.
- Other training was offered by SEDA, ADM and DEDEA to the hawkers where the municipality transports the hawkers to the training venues mainly in East London. These workshops are on various skills such as business skills, customer care and co-operative formation.

3.2.3.2 PRIVATE AND PUBLIC PARTNERSHIPS FORMED

- The council is working together with Umngcunube Development in the livestock Improvement Programme. The programme was piloted in the coastal Elliotdale areas and is now going to move beyond.

- There are other organisations which the municipality works with, but there are no formal partnerships established with them, such organisations are ASGISA – EC, World Vision and Isibaya.

3.2.3.3 NO. OF FORMAL SMMEs ESTABLISHED

Whilst there is no statistical information to be provided, there are a number of growing businesses established during the year, such as:-

- Saloons
- Car wash
- Grocery enterprises
- Food chains
- Internet cafes etc

3.2.3.4 NO OF JOBS CREATED THROUGH EPWP AND PARTNERSHIPS

There were various programs where the EPWP was used in order to create jobs and offer accredited training so that one may get a permanent job thereafter. These programmes were in the following areas:-

- Coast care programme funded by Department of Environmental Affairs. The programme is running for 18 months and has started in 2008. Up to this stage, the programme has created 29 temporary job opportunities to the people residing along the coastline. The total cost to labour was R3.2m.
- Roads construction and maintenance programme as managed by the municipality. This programme is MIG funded and is a continuous programme. Out of 04 roads constructed and buildings constructed a 169 number of jobs have been created.
- Water services, the programme involves water provisioning to the municipality wards. The water services authority is the Amathole District Municipality but beneficiation in terms of employment is the people from the local municipality. The number of jobs created during the year was 130.
- Jobs created through PPP involve the employment created through the programme on livestock improvement. The programme is implemented by Umngcunube Development together with Mbhashe Municipality.

3.2.4 SUPPORT FOR SOCIAL INVESTMENT PROGRAMS

In trying to build community competencies and capacity, the municipality has done the following:-

- Trained and registered three co-operatives in Elliotdale and Munyu (Dutywa).
- Conducted a workshop on SMME's (The workshop was based on services offered by organisations such as Small Enterprise Development Agency (SEDA), Eastern Cape Development Corporation (ECDC), Eastern Cape Industrial Chamber and Mbhashe Municipality.
- Conducted workshops on business skills, co-operative development and philosophy for the hawkers.
- Conducted training on craft production for the crafters.
- Did a craft audit in trying to find the level and assist crafters according to their level of development.
- Conducted training for tourism product owners on customer care and business skills.
- Conducted tourism awareness for coastal schools and other interested private sector business.
- Created a chance for tourism product owners to market the products in national, provincial and local events such as MACUFE, Grahamstown Arts Festival and Tourism Imbizo.

The number of co-operatives existing is more than 50. The co-operatives are not in the municipal database for suppliers because many of them do not have the necessary documentation such as clearance certificates that will allow them to do business with the state. The programme of capacitation will continue in the year 2010/11 that will make co-operatives compete for tenders in government as business.

The unemployment database that the municipality have was collected in 2006 and was never reviewed since then.

3.3 ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN LED

	Indicator name	Target set for the year	Achievement level during the year (absolute figure)	Achievement percentage during the year
1	Percentage of LED Budget spent on LED related activities.	R4 560 000	R4 106 547	90.05%
2	Number of LED stakeholder forum held	04	01	25%
3	Percentage of SMME that have benefited from a SMME support program	75%		
4	Number of job opportunities created through EPWP	200	328	164%
5	Number of job opportunities created	10	10	100%

through PPP			
-------------	--	--	--

3.4 CHALLENGES REGARDING LED STRATEGY IMPLEMENTAION

Some of the problems regarding LED implementation include:-

- Programs and projects with no budget i.e. Limited funding. Some of the projects that appear in the LED plan need do not have funding for their implementation.
- Concentration of the council is on the quick wins and not on sustainable programs.
- Inability of the business sector to participate on LED activities and programs. The business sector is not organised and as such do not fully participate in LED and IDP activities of the municipality.
- Policies and strategies such as Marketing and Communication, Investments and Partnership strategies were not developed.
- By-laws not implemented yet, however the municipality has identified and acknowledged the problem and has budgeted for reviewal and development of other by laws for the year 2010/11.

Chapter 4: MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT

4.1 The audited financial statements

4.1.1 STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

MBHASHE LOCAL MUNICIPALITY			
STATEMENT OF FINANCIAL POSITION			
as at 30 June 2010			
Figures in Rands	Note	2010	2009 Restated
Assets			
Current assets			
Cash and cash equivalents	1	22 946 147	31 152 203
Trade and other receivables from exchange transactions	2	4 031 570	183 800
Inventories	3	-	-
VAT receivable	8	7 150 712	1 870 352
Non-current assets			
Property, plant and equipment	4	96 534 394	64 576 081
Intangible assets	5	-	-
Investment property carried at cost	6	-	-
Total assets		130 662 823	97 782 436
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	7	5 025 665	6 390 238
Current portion of unspent conditional grants and receipts	10	5 081 226	7 582 227

Total liabilities	10 106 891	13 972 465
Net assets	120 555 932	83 809 971
Net assets		
Accumulated surplus	120 555 932	83 809 971
Total net assets	120 555 932	83 809 971

4.1.2 STATEMENT OF FINANCIAL PERFORMANCE

MBHASHE LOCAL MUNICIPALITY			
DETAILED STATEMENT OF FINANCIAL PERFORMANCE			
for the year ending 30 June 2010			
Figures in Rands	Note	2010	2009 Restated
Revenue from exchange transactions			
Service charges	12	695 851	659 415
Rental of facilities and equipment	13	543 278	365 405
		1 239 129	1 024 820
Revenue from non-exchange transactions			
Property rates	11	8 714 382	3 073 203
Fines		512 315	-
Licences and permits		607 047	-
Government grants and subsidies	15	99 459 099	66 308 833
		109 292 843	69 382 036

Other income	16	538 701	2 312 658
Interest earned - external investments	14	1 052 882	2 111 322
Total revenue		112 123 555	74 830 836
Expenses			
Employee related costs	17	21 653 696	20 779 091
Remuneration of councillors	18	10 869 623	9 291 246
Impairment losses		3 642 083	3 358 701
Depreciation and amortisation expense	19	-	3 430 715
Repairs and maintenance		2 632 984	4 737 582
General expenses	20	36 610 328	36 790 429
Total expenses		75 408 714	78 387 764
Loss on sale of assets	21	-	(111 756)
Surplus / (deficit) for the period		36 714 841	(3 668 684)

4.1.3 CASH FLOW STATEMENT

MBHASHE LOCAL MUNICIPALITY				
CASH FLOW STATEMENT				
for the year ended 30 June 2010				
Figures in Rands	Note	2010	2009 Restated	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts		102 163	701	71 653
		821		
		3 070		705
Sales of goods and services	705	96 958	410	67 575
Grants	099		717	
Interest received		1 052		2 111

		882	322
	Other receipts	1 082	1 261
		135	252
Payments		78 411	62 609
		564	256
	Employee costs	32 393	29 249
		969	763
	Suppliers	45 906	33 187
		575	281
	Interest paid	111	172
		020	212
		23 752	9 044
Net cash flows from operating activities		22 257	445
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(31 958)	(15 025)
Proceeds from sale of fixed assets		-	47
		320	
Net cash flows from investing activities		(31 958)	(14 978)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash flows from financing activities		-	-
Decrease in net cash and cash equivalents		(8 206)	(5 934)
Net cash and cash equivalents at beginning of period		056)	126)
		31 152	37 086
Net cash and cash equivalents at end of period		203	329
		22 946	31 152
		23 147	203

4.1.4 STATEMENT OF CHANGES IN NET ASSETS

MBHASHE LOCAL MUNICIPALITY				
STATEMENT OF CHANGES IN NET ASSETS				
for the year ended 30 June 2010				
		Government Grant Reserve	Accumulated Surplus/(Deficit)	Total Net Assets
Figures in Rands	Note	R	R	R
Balance at 30 June	2008	9 652 509	77 007 076	86 659 585
Correction of prior period error	24	(9 652 509)	10 471 579	819 070
Restated balance		-	87 478 655	87 478 655
Deficit for the period		-	(3 668 684)	(3 668 684)
Balance at 30 June	2009	-	83 809 971	83 809 971
<i>Take on of previously unidentified bank accounts (*)</i>		-	31 120	31 120
Surplus for the period		-	36 714 841	36 714 841
Balance at 30 June	2010	-	120 555	120 555 932

4.1.6 NOTES TO FINANCIAL STATEMENTS

NOTE 1

**MBHASHE LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010**

	2010 R	2009 R Restated
CASH AND CASH EQUIVALENTS		
<i>Cash and cash equivalents consist of the following:</i>		
Cash held with banking institutions	22 941 412	31 141 468
Cash on hand	4 735	4 735
	22 946	31 156
	147	203

Classification on the face of the Statement of Financial Position:

Current assets	22 946	31 153
Current liabilities	147	203
	-	
	22 946	31 153
	147	203

Cash and cash equivalents pledged as security

No financial assets are pledged as security.

Cash held with banking institutions

The Municipality had the following bank accounts: -

	Bank Account Balance			Cash book balance		
	30 June 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
Current Account (Primary Bank Account)						
				(*)		
ABSA Bank Limited - Account Number 4048384454	4 089	5 037	7 662		211	4 371
	714	681	117	-39 629 875	663	526
	1 968					
First National Bank Limited - Account Number 62231175953	777	-	-	42 337 175	-	
	6 058	5 037	7 662		211	4 371
	491	681	117	2 707 300	663	526

During the financial period the municipality changed its primary banker from ABSA Bank Limited to FNB Limited. Both bank accounts are currently in existence however the majority of the transactions now take place through the new FNB Primary bank account. The Municipality intends to close the ABSA account in the 2010/11 financial period. Notification of the change in bank accounts was provided as required by the MFMA.

(*)During the change over from one bank account to another the Municipality encountered obstacles in opening a new bank account on the financial reporting system. Due to these difficulties a number of transactions were captured against the incorrect general ledger code resulting in one code reflecting an "overdraft" while the other reflects a surplus. The net of the two accounts is a surplus. The Municipality has performed a full reconciliation between the bank accounts and the general ledger codes and will be pursuing a solution to correct the situation.

Current Account (Other cheque accounts)

First National Bank Limited - Account Number 62231177280 (FMG)	397							
	085	-	-		467 084		-	
First National Bank Limited - Account Number 62231176935 (MSIG)	566							
	672	-	-		566 672		-	
ABSA Bank Limited - Account Number 4054446052	30							
	225	-	-		30 225		-	
Standard Bank Limited - Account Number 280775954	1 437	1 437					1 437	
	298	298			1 437 298	298		
Standard Bank Limited - Account Number 280763921	12	13					13	
	518	853			12 518	853		
	2 443	1 451					1 451	
	798	151			2 513 797	151		

Investment accounts

ABSA Bank Limited - Account Number 9056683798	65	62	57			62	57
	626	937	929.35		65 626	937	929.35
ABSA Bank Limited - Account Number 9059705408	624	596	550			596	550
	635	982	261.75		624 635	982	261.75
ABSA Bank Limited - Account Number 9056533262	6	6	5			6	5
	342	138	712.01		6 342	138	712.01
ABSA Bank Limited - Account Number 9056685669	2	2	2			2	2
	815	725	533.32		2 815	725	533.32
ABSA Bank Limited - Account Number 9057376730	100	96	88			96	88
	534	421	704.24		100 534	421	704.24
ABSA Bank Limited - Account Number 9056617880	14	14	13			14	13
	837	313	268.68		14 837	313	268.68

ABSA Bank Limited - Account Number 9057233364	563	538	495			538	495
	118	622	208.94		563 118	622	208.94
ABSA Bank Limited - Account Number 9056533115	37	35	33			35	33
	258	880	219.59		37 258	880	219.59
ABSA Bank Limited - Account Number 9061831536	3	3	3			3	3
	521	538	457.06		3 521	538	457.06
ABSA Bank Limited - Account Number 9092743314	307	302	286			302	286
	289	673	894.53		307 289	673	894.53
ABSA Bank Limited - Account Number 9092743005	530	522	495			522	495
	952	976	717.96		530 952	976	717.96
ABSA Bank Limited - Account Number 9092742368	788	776	736			776	736
	405	562	086.66		788 405	562	086.66
ABSA Bank Limited - Account Number 9057228882	27	26	24			26	24
	019	024	099.35		27 019	024	099.35
ABSA Bank Limited - Account Number 9057225135	449	429	395			429	395
	324	756	182.65		449 324	756	182.65
ABSA Bank Limited - Account Number 9057252990	137	131	121			131	121
	559	771	177.86		137 559	771	177.86
ABSA Bank Limited - Account Number 9056686013	232	222	204			222	204
	645	902	847.28		232 645	902	847.28
ABSA Bank Limited - Account Number 9110890209	1 253	1 235	1 170			1 235	1 170
	338	221	050.50		1 253 338	221	050.50
Standard Bank Limited Account Number 38 873 187 7	289	276	252			276	252
	035	533	599.54		289 035	533	599.54
Standard Bank Limited Account Number 38 873 218 0			4				4
			577.06				577.06
First National Bank Limited - Account Number 62015966099	6	6	6			6	6
	126	893	674.00		6 126	893	674.00
ABSA Bank Limited - Account Number 9185789267		15 896	18 135			15 896	18 135
		380	492.95			380	492.95
ABSA Bank Limited - Account Number 9205591041	3 296	3 245				3 245	
	284	908			3 296 284	908	
ABSA Bank Limited - Account Number 9215148412		4 258				4 258	
		620				620	
ABSA Bank Limited - Account Number 9065656825							
	191				191		
First National Bank Limited - Account Number 62231177769	7 598						
	877				7 598 877		
First National Bank Limited - Account Number 62231195323	748						
	942				748 942		

First National Bank Limited - Account Number 62001250000

			159			159
	-	232		-	-	232
17 084		28 849		23 083		28 849
671		009		695		17 084 671 009 695

CASH AND CASH EQUIVALENTS (continued)

Investment funds held in suspense

First National Bank - Account Number 62020609551

	635		635		635		635		635
645		645		645		635 645		645	
645		635		635		635		635	
645		645		645		635 645		645	

Total cash at banks

26 222		35 973		31 381		31 147		28 09
605		487		457		22 941 412 468		866

Previously unaccounted for bank accounts

During the financial period the municipality identified the following previously unaccounted for bank accounts which have been taken into account in the above disclosures:

ABSA Bank Limited - Account Number 4054446052

	30		30
225		871	

ABSA Bank Limited - Account Number 9065656825

191		206	
-----	--	-----	--

Adjustment to opening balance on ABSA account 62015966099

	-		43
30		31	
416		120	

During the financial period the municipality identified the following previously unaccounted for bank accounts which have not yet been taken into account in the above disclosures. The municipality has requested the relevant information from the bank however as at the time of submission of the annual financial statements the information had not yet been made available. A correction to prior periods will be affected upon receipt of the required information. The detailed of the relevant accounts are disclosed below:

ABSA Bank Limited - Account Number 9110889747

Balance per bank confirmation as at 30 June 2010	R 277 951.03
ABSA Bank Limited - Account Number 9100317908	
Balance per bank confirmation as at 30 June 2010	<u>R 333 228.67</u>
	<u>R 611 179.70</u>

Cash on hand

Cash on hand consists of the following:-

Petty cash

	4	4
735		735

Total bank overdraft

Note 2

**MBHASHE LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010**

	2010 R	2009 R Restated
TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Trade and other receivables comprise:		
Consumer debtors	4 021	14
Sundry debtors	641 9	798 169
	<u>929</u>	<u>002</u>
Total	<u>4 031</u>	<u>183</u>
	<u>570</u>	<u>800</u>

Consumer debtors

Gross balances			
Rates	645	14 066	7 033
Refuse	533	3 263	010
			2 759
		17 330	9 792
Total	178	610	
		(13 308	(9 777
Less: provision for debt impairment	537)	812)	
		4 021	14
Net consumer debtors	641	798	

Included in the above consumer debtors balances are unreconciled differences between the balances per the debtors ledger and the debtors age analysis. The Municipality intends to initiate a project during the 2010/2011 financial period to cleanse the existing debtors base and at the same time reconcile the debtors ledger to the age analysis. The effect of the unreconciled differences is as follows:

as at 30 June 2010	Debit balances	Credit balances	Net	
	17 330	(698		16 631
Gross consumer debtors per trial balance	178	347)	831	
	15 960	(698		
Debtors per the age analysis	458	797)		
	1 369			16 631
Unreconciled difference	720	450	831	

as at 30 June 2009	Debit balances	Credit balances	Net	
	9 792	(1 090		8 702
Gross consumer debtors per trial balance	610	030)	580	
	9 839	(1 090		8 749
Debtors per the age analysis	946	480)	466	
	(47			(46
Unreconciled difference	336)	450	886)	

Rates: Ageing

Current (0 – 30 days)	631	546	195	234
31 - 60 Days	583	544	706	233
61 - 90 Days	562	542	145	229
90 Days +	116	11 954	828	7 344
Total	892	13 587	874	8 041

Refuse: Ageing

Current (0 – 30 days)	460	60	222	53
31 - 60 Days	672	59	998	52
61 - 90 Days	657	60	552	51
90 Days +	777	2 191	299	1 640
Total	566	2 372	071	1 798

Total consumer debtors: Ageing

Current (0 – 30 days)	091	607	417	287
31 - 60 Days	255	604	705	286
61 - 90 Days	219	603	698	280
90 Days +	893	14 145	126	8 985
Total	458	15 960	946	9 839

Summary of Debtors by Customer Classification

	Consumers		Industrial / Commercial		National and Provincial Government	
	R	R	R	R	R	R
as at 30 June 2010						
Current (0 – 30 days)	178	352	948	186	965	67
31 - 60 Days	582	350	836	186	837	66
61 - 90 Days	623	349	200	189	395	64
90 Days +	514	7 733	942	4 743	438	1 668
Sub-total	897	8 785	926	5 306	635	1 867
Less: Provision for debt impairment	272)	(7 334	927)	(4 285	337)	(1 688
Total debtors by customer classification	625	1 451	999	1 020	298	179
TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)						
as at 30 June 2009						
Current (0 – 30 days)	734	129	031	102	653	55
31 - 60 Days	202	129	857	101	645	55
61 - 90 Days	045	125	008	100	645	55
90 Days +	101	4 567	764	3 175	261	1 242
Sub-total	082	4 951	660	3 479	204	1 409
Less: Provision for debt impairment	082)	(4 951	526)	(3 417	204)	(1 409
Total debtors by customer classification	0	134	62			-

Reconciliation of debt impairment relating to consumer debtors

Balance at beginning of the year	812	9 777	111	6 419
Contributions to provision	725	3 530	701	3 358
Balance at end of year	538	13 308	812	9 777

Other receivables

Sundry debtors (net of impairment)	287.35	121	358.00	111
Prepayments		-	644	57
	287	121	002	169
Less provision for debt impairment	358)	(111		
Net sundry debtors	929	9	002	169

As at 30 June 2010 sundry debtors comprised various overpayments made to employees.

As of 30 June 2010 other receivables of R 111 358 (2009: R -) were impaired and provided for.

The amount of the provision was R 111 358 as of 30 June 2010 (2009: R -).

The ageing of these receivables is as follows:

Over 1 year	358	111	358	111
-------------	-----	-----	-----	-----

This amount represents a take on balance from when the municipality migrated to its new financial system. No records are available to identify the parties from which the debts may be recovered, as such the amount has been impaired in full.

The fair value of trade and other receivables approximates their carrying amounts.

INVENTORIES

Consumable stores	-	-
Maintenance materials	-	-
Unsold properties held for resale	-	-
Fuel (Diesel and petrol)	-	-
Water	-	-
	<hr/>	<hr/>
	-	-
Less: Inventories write down/ (reversal of write down to net replacement value (NRV) or net replacement cost (NRC)	-	-
	<hr/>	<hr/>
	-	-
	<hr/> <hr/>	<hr/> <hr/>

Transitional provisions

Inventories recognised at provisional amounts

The municipality has disclosed the provisional carrying amount of inventories held at net replacement cost at R 0.00 as the municipality is still in the initial stages of assessing its inventory holdings.

Initial findings indicate that a portion of the municipality's property portfolio may need to be classified as inventories. The municipality has initiated a project to identify all infrastructure assets, land and buildings falling under its ownership.

The following progress has been achieved with regards to this the identification and accounting for inventory:

INVENTORIES (continued)

- The General Valuation Roll was drawn up as at 30 June 2009.

- An external service provider has undertake the first phase of an extensive project to identify and consolidate all infrastructure, land and buildings into a single asset register. The first phase entailed a desk top assessment to identify these assets. The municipality intends to commission additional projects aimed at the verification of assets and establishing an appropriate value in terms of the provisions contained within ASB Directive 7.

PREPAYMENTS

Prepaid expenses

-	-
---	---

Prepaid expenses relate to overpayments made to various suppliers effected during the financial period for services including electricity, water and office equipment

INVESTMENTS

Deposits

-	-
---	---

Call investments

-	-
---	---

-	-
---	---

Fixed deposits amounting to Rxxx (20X0: Rxxx) have been ring-fenced for the purposes of repaying long-term liabilities as sent out in Note 36.

NON-CURRENT RECEIVABLES

Car loans

-	-
---	---

Staff loans

-	-
---	---

Housing selling scheme loans

-	-
---	---

Other non-current receivables

-	-
---	---

-	-
---	---

Less : Current portion transferred to current receivables

-	-
---	---

Car loans

-	-
---	---

Staff loans

-	-
---	---

Housing selling scheme loans
Other non-current receivables

-	-
-	-

Total

-	-
---	---

CAR LOANS

terms and conditions

STAFF LOANS

terms and conditions

HOUSING SELLING SCHEME LOANS

terms and conditions

OTHER LONG TERM LOANS

terms and conditions

CONSTRUCTION CONTRACT RECEIVABLES

Contracts in progress at reporting date:

Construction contract receivables

-	-
---	---

Advances received in excess of work completed are included in trade and other payables.

At 30 June 20x1, contract debtors of R - (20x0: R -) are due for settlement after more than 12 months.

Contract debtors were pledged as security for overdraft facilities of R - (20x0: R -) of the municipality. At year end the overdraft amounted to R - (20x0: R -).

INVESTMENTS

Financial Instruments

Fixed Deposits
Listed Investments
Other Investments

-	-
-	-
-	-
<hr/>	
-	-
<hr/>	

Pledged Investments

A fixed deposit amounting to Rxxx has been invested with xxx Bank as security for the lease of a sewerage purification plant.

Note 4

**MBHASHE LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010**

PROPERTY, PLANT AND EQUIPMENT

Reconciliation of Carrying Value - 2010

	Land	Buildings	Infrastructure	Community	Other Assets	Total
	R	R	R	R	R	R
as at 1 July 2009	9 366	1 699	45 551	4 481	3 477	64 576
	112	421	521	221	806	081
Cost/Revaluation	9 366	2 486	53 446	6 546	9 258	81 104
Accumulated depreciation and impairment losses	112	834	539	301	569	355
	-	(787)	(7 895)	(2 065)	(5 780)	(16 528)
	-	413)	018)	080)	763)	274)
Acquisitions	-	-	29 633	-	2 325	31 958
	-	-	078	-	235	313
as at 30 June 2010	9 366	1 699	75 184	4 481	5 803	96 534
	112	421	599	221	041	394
Cost/Revaluation	9 366	2 486	83 079	6 546	11 583	113 062
Accumulated depreciation and impairment losses	112	834	617	301	804	668
	-	(787)	(7 895)	(2 065)	(5 780)	(16 528)
	-	413)	018)	080)	763)	274)

Reconciliation of Carrying Value - 2009

	Land	Buildings	Infrastructure	Community	Other Assets	Total
	R	R	R	R	R	R
as at 1 July 2008	9 366	1 782	34 705	4 699	2 586	53 139
	112	315	895	430	230	982
Cost/Revaluation	9 366	2 486	40 962	6 546	7 313	66 674
Accumulated depreciation and impairment losses	112	834	416	301	336	999
	-	(704)	(6 256)	(1 846)	(4 727)	(13 535)
	-	519)	521)	871)	106)	017)
Acquisitions	-	-	12 484	-	2 541	15 025
	-	-	123	-	766	889
Depreciation	-	(82)	(1 638)	(218)	(1 491)	(3 430)
	-	894)	497)	209)	115)	715)

Carrying value of disposals	-	-	-	-	-	(159 075)	(159 075)
Cost/Revaluation	-	-	-	-	-	533	533
Accumulated depreciation and impairment losses	-	-	-	-	-	458	458
as at 30 June 2009	112	9 366	421	1 699	45 551	4 481	3 477
Cost/Revaluation	112	9 366	834	2 486	53 446	6 546	9 258
Accumulated depreciation and impairment losses	-	-	413	(787)	(7 895)	(2 065)	(5 780)
				018	080	763	274
							81 104
							16 528
							274

Refer to Appendix B for more detail on property, plant and equipment

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in the accounting policies, the municipality has disclosed all of its property, plant and equipment with a carrying value of R96 534 394 (2009: R64 576 081) at provisional amounts.

During the current year the municipality has provisionally capitalised the following expenditure to property, plant and equipment pending further confirmation based on the processes set out below:

	2010	2009
	R	R
- Roads infrastructure	21 410	12 484
- Electrification infrastructure	977	123
- Computer equipment	101	-
	1 325	411
	754	270

- Vehicles	724	763	148	921
- Furniture and fittings	384	6	469	848
- Plant and equipment	373	229	879	360
		31 958		15 025
	313		889	

The municipality is in the process of developing a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

The following progress has been achieved with regards to the development of an asset register:

- The municipality has procured the asset management system BAUD to assist with the maintenance of an appropriate asset register.
- The General Valuation Roll was drawn up as at 30 June 2009. This roll includes information regarding properties owned by the municipality. This information will be included in the asset register.
- An external service provider has undertake the first phase of an extensive project to identify and consolidate all infrastructure, land and buildings into a single asset register. The first phase entailed a desk top assessment to identify these assets. The municipality intends to commission additional projects aimed at the verification of assets and establishing an appropriate value in terms of the provisions contained within ASB Directive 7.
- An external service provider is in the process of loading movable asset information onto the municipality's asset management system. This process has however not yet been finalised.

Transitional provisions (continued)

Initial information collated as part of the desk top study indicates that the municipality infrastructure assets currently consist of the following:

	Estimated value per the General Valuation Role - 30 June 2009	Quantity	Measurement
- Roads	-	789.187	km
- Buildings	93 674 000	150	units
- Land parcels (excluding the buildings above)	38 655 000	1 675	units

- Streetlights in Willowvale, Dutywa and Elliotdale		-	Not established	Not applicable
- Electricity infrastructure	101	8 222	Not established	Not applicable
- Solid waste			3 land fill sites to be restored	Not applicable
Total		140 551		
		101		

The values for the above assets must still be established

The municipality envisages that full compliance with GRAP 17 Property, plant and equipment will be achieved by 30 June 2012.

	Note	2010 R
Property, plant and equipment pledged as security		
Asset 1		
Terms and conditions		
Asset 2		
Terms and conditions		
Capitalised expenditure		
Asset 1		
Asset 2		

Asset 3

-

Compensation received for losses on property, plant and equipment – included in operating surplus

Asset 1

Asset 2

Asset 3

-

Details of valuation

The effective date of the revaluations was x. Revaluations were performed by an independent valuer, Mr Botha [specify qualifications], of Messrs Botha and Rudd. Botha and Rudd are not connected to the entity.

Land and buildings are re-valued independently every x years.

The valuation was performed using the discounted cash flow approach (other, describe, e.g. recent arms length transaction), and the following assumptions were used:

Discount rate

Other

Other

These assumptions are based on current market conditions.

The carrying value of the revalued assets under the cost model would have been:

Asset 1

Asset 2

Asset 3

NOTE 7

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

	2010	2009
	R	R
		Restated
<hr/>		
TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade creditors	303 2 148	3 250 543
Payments received in advance	347 698	1 090 031
Accrued bonus	834 375	540 752
Staff leave accrual	181 1 803	1 508 912
	<hr/>	
Total creditors	665 5 025	6 390 238
	<hr/> <hr/>	<hr/> <hr/>

The fair value of trade and other payables approximates their carrying amounts.

Payments received in advance

Payments received in advance comprise those consumer debtors whose accounts reflect a credit balance. For additional details regarding debtors balances refer to note 2.

Bonuses

Performance bonuses are paid one year in arrear as the assessment of eligible employees had not taken place at the reporting date and no present obligation exist.

The accrued bonus relates to amounts not yet paid to non-management level employees whose bonuses accrue to them. Bonuses constitute a 13th cheque and are paid on in the birth month of the respective employee.

VAT RECEIVABLE

VAT receivable	712	7 150	1 870 352
----------------	-----	-------	-----------

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is made to suppliers.

During the financial period under review SARS performed a VAT audit covering the VAT periods 1 July 2008 to 30 April 2010. The audit has been substantially completed. As at the date of submission of the annual financial statements the Municipality and the appointed service provider have not yet successfully completed a reconciliation between the VAT 201 submissions, the results of the audit and the information recorded on the system. Preliminary findings indicate that the potential effect on the VAT receivable and the expenditure reported in the Statement of Financial Performance are as follows:

VAT receivable (as reported above)	7 150 712	1 870 352
VAT not allowed on operating expenditure	-1 300 087	Not available
VAT not allowed on Capital expenditure	-614 507	Not available
Adjusted VAT receivable amount	5 236 119	1 870 352

Communication from SARS regarding the final refund is still outstanding.

The corresponding information for comparative period was not available for disclosure.

Adjustments for the above will only be made once adequate detailed work has been performed to support the adjustments.

PROVISIONS

Landfill site restoration	-	-
Total Provisions	-	-

The municipality has an obligation to restore 3 landfill sites, one in Willowvale one in Dutywa and one in Elliotdale. It is expected that the restoration process will start in the 2010/11 financial period. Detailed planning and implementation processes have commenced to make use of transfer stations when dealing with solid waste disposal. Legal dumpsites in Elliotdale and Butterworth (provided by the Amathole District Municipality) will be used for waste disposal purposes.

The municipality has initiated the process of procuring service providers to quantify the costs of restoration. As at 31 August 2010 no estimation was available on which the provision to restore the landfill sites could be based.

UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent Conditional Grants from other spheres of Government

IGG Fund 1 (ABSA - 9056685669)		2 247	2 248
		23	
IGG Fund 2 (ABSA - 9057228882)	072		23 072
		575	
Housing Development Fund (ABSA - 9059705408)	099		575 099
Pilot Housing Fund (STD - 388732180)		4 577	4 577
Willowvale roads (ABSA - 9056533262)		5 456	5 456
		450	
Town planning 1 (ABSA - 9057225135)	378		450 378
		400	
Town planning 2 (ABSA - 90927430005)	198		400 198
		193	
Survey fund (ABSA - 9056686013)	283		193 283
		1 126	
Ntlonyane fund (ABSA - 9110890209)	903		1 126 903
		704	
Finance Management Grant	678		704 678
		111	
LGSETA Fund	463		111 463
MIG FUND		-	2 501 000
MSIG		618	618 496

Equitable share (ABSA - 9061831536)	496	3 475	3 475
		31	
Extension fund (ABSA - 9056533115)	578		31 578
Water reticulation (FNB - 6201596609)		6 674	6 674
		709	
IDP Fund 2 (ABSA - 9057252990)	286		709 286
		114	
IDP Fund 3 (ABSA - 9092742368)	363		114 363
		5 081	
Total Unspent Conditional Grants and Receipts	226		7 582 227

See Note 15 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investments until utilised.

PROPERTY RATES

Residential, Business, Government and other	382	8 714	3 073 203
		8 714	
Total	382		3 073 203

Valuations

Property rates for the 2009/10 period were based on the property values summarised below:

Residential	000	135 717	Not available
Commercial	500	180 199	Not available
State	000	74 694	Not available
Municipal	500	70 061	Not available
		460 672	
Total property valuations as at 30 June 2009	000		-

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009.

A general rate of R0.02 (2009: R0.15) is applied to property valuations to determine assessment rates. Rates are levied on an annual basis on property owners.

SERVICE CHARGES

Refuse removal	851	695	659 415
		695	
Total Service Charges	851		659 415

RENTAL OF FACILITIES AND EQUIPMENT

Rental of facilities	653	262	104 091
Rental of commonage	625	280	261 314
		543	
Total rentals	278		365 405

INTEREST EARNED - EXTERNAL INVESTMENTS

Bank	882	1 052	2 111 322
		1 052	
Total interest	882		2 111 322

GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	923	63 589	41 014 669
-----------------	-----	--------	------------

Municipal Infrastructure Grant (MIG)	000	23 466	13 606 000
Municipal Systems Improvement Grant (MSIG)	000	735	977 932
Financial Management Grant (FMG)	000	1 000	439 765
Electrification Grant	000	10 000	-
Free Basic Services (FBS)		-	7 164 097
Ward Committee Grant		-	280 995
Housing Development Grant		-	640 081
		36	
Grants received from local government entities (LGSETA)	131		225 964
		632	
Grants received from provincial government entities	045		208
Independent Electoral Committee Grant		-	1 693 750
Integrated Development Planning Grant		-	265 372
		99 459	
Total Government Grant and Subsidies	099		66 308 833

Equitable Share

In terms of the Constitution, a portion of this grant is used to subsidise the provision of basic services to indigent community members. The Municipality is not an electricity or water services provider, as such the municipality provides registered indigents with 20 litres of paraffin per quarter.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	000	2 501	-
Current year receipts	000	20 965	16 107 000
Conditions met - transferred to revenue	000)	(23 466)	(13 606 000)
Conditions still to be met - remain liabilities (see note 10)		-	2 501 000

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	496	618	861 428
Current year receipts	000	735	735 000
Conditions met - transferred to revenue	000)	(735	(977 932)
		618	
Conditions still to be met - remain liabilities (see note 10)	496		618 496

The Municipality intends to undertake a project to analyse unspent conditional funding to determine whether any conditions remain before the amounts may be recognised as revenue.

Financial Management Grant (FMG)

Balance unspent at beginning of year	678	704	644 443
Current year receipts	000	1 000	500 000
Conditions met - transferred to revenue	000)	(1 000	(439 765)
		704	
Conditions still to be met - remain liabilities (see note 10)	678		704 678

The Municipality intends to undertake a project to analyse unspent conditional funding to determine whether any conditions remain before the amounts may be recognised as revenue.

Electrification Grant

Balance unspent at beginning of year		-	-
Current year receipts	000	10 000	-
Conditions met - transferred to revenue	000)	(10 000	-
Conditions still to be met - remain liabilities		-	-

Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 12 of 2009), the municipality is expecting a 23% increase in the Equitable Share allocation for 2010/11 and a 10% increase in 2011/12.

OTHER INCOME

Administration fees - third parties	791	252	146 897
Sale of land	147	20	35 760
Revenue from minor services	120	158	209 337
Sundry sales		2 254	4 148
Sundry revenue	389	105	1 916 516
Total Other Income	701	538	2 312 658

EMPLOYEE RELATED COSTS

Basic salaries and wages	088	16 799	17 477 254
Bonus	801	605	920 924
Medical aid contributions	540	789	78 400
UIF contributions	035	138	-
Post employment benefits - Pension - defined contribution plan	004	1 648	1 692 454
Travel, motor car, accommodation, subsistence and other allowances	165	818	-
Housing benefits and allowances	637	115	102 136

Overtime payments	637	387	-
Movement in leave accrual	269	294	507 281
Other employee related costs	520	57	642
Total Employee Related Costs	696	21 653	20 779 091

There were no advances to employees.

Remuneration paid to the below mentioned members of management is included in the above employee related costs:

Remuneration of the Acting Municipal Manager (*)

Annual Remuneration	954	398	461 912
Acting allowance	564	440	69 190
Travel, motor car, accommodation, subsistence and other allowances	458	168	120 610
Contributions to UIF, Medical and Pension Funds	084	69	45 200
Total	061	1 077	696 912

The Land and Housing Director was the Acting Municipal Manager for full financial period under review.

Remuneration of the Chief Finance Officer

Annual Remuneration	689	385	364 426
Travel, motor car, accommodation, subsistence and other allowances	458	168	125 410
Contributions to UIF, Medical and Pension Funds	084	69	69 742

Total	231	623	559 578
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Remuneration of the Technical Services Manager

Annual Remuneration	852	265	-
Travel, motor car, accommodation, subsistence and other allowances	712	94	-
Contributions to UIF, Medical and Pension Funds	689	34	-
Total	253	395	-

The Technical Services Manager post was vacant during 2009.

Remuneration of the Corporate Services Manager

Annual Remuneration	689	385	364 426
Travel, motor car, accommodation, subsistence and other allowances	458	168	133 410
Contributions to UIF, Medical and Pension Funds	084	69	61 742
Total	231	623	559 578

Remuneration of the Community Services Manager

Annual Remuneration	689	385	434 984
Travel, motor car, accommodation, subsistence and other allowances	716	155	116 610
Contributions to UIF, Medical and Pension Funds	126	71	54 000
Total	531	612	605 594

Remuneration of the Local Economic Development Manager

Annual Remuneration		385	434 889
---------------------	--	-----	---------

Acting Allowance	689	-	83 796
Travel, motor car, accommodation, subsistence and other allowances	541	159	161 616
Contributions to UIF, Medical and Pension Funds	000	78	71 203
Total	230	623	751 504

Remuneration of the Acting Land and Housing Manager (*)

Annual Remuneration	970	183	79 638
Acting Allowance	747	335	
Performance- and other bonuses	999	14	83 937
Travel, motor car, accommodation, subsistence and other allowances		-	4 424
Total	716	534	167 999

(*) - Packages as disclosed above are the subject of an internal enquiry aimed at establishing the validity of the information on the payroll system.

REMUNERATION OF COUNCILLORS

Mayor	999	554	521 241
Speaker	003	444	416 618
Executive Committee Members	413	2 622	2 337 882
Councillors	054	5 130	4 166 401
Councillors' allowances	968	1 643	1 422 251
Traditional Leaders	186	474	426 853
Total Councillors' Remuneration	623	10 869	9 291 246

In-kind Benefits

The Mayor, Speaker and certain Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of the Council owned vehicle for official duties. A full time driver is at her disposal.

DEPRECIATION AND AMORTISATION EXPENSE

Property, plant and equipment

Total Depreciation and Amortisation

-	3 430 715
-	3 430 715

Depreciation is disclosed as a provisional amount of R0.00 under the transitional provisions contained in ASB Directive 4. The Municipality is in the process of compiling an asset register but it has not yet been finalised.

GENERAL EXPENSES

Included in general expenses are the following:-

Admin fees	625	357	230 010
Advertising	406	76	148 278
Audit fees	436	1 462	1 515 056
Bank charges	551	192	89 551
Cleaning	802	321	311 999
Conferences and delegations	761	2 082	2 326 221
Consulting fees	245	2 196	1 118 607

Consumables	889	35	273 273
Electricity	555	157	243 691
Entertainment	472	363	406 108
FIFA 2010 World Cup	199	1 079	-
Free Basic Services	821	1 749	5 121 892
Fuel and oil	112	960	1 070 421
Insurance	646	147	214 855
Interest paid on bank overdrafts		2 226	-
Interest paid on overdue creditors	794	108	172 212
Legal expenses	611	1 231	464 035
Licence fees - vehicles	654	54	1 364
Membership fees	650	18	180 965
Municipal projects and community development	484	17 535	17 570 208
Printing and stationery	051	537	231 397
Rental of office equipment	309	905	597 248
Security costs	644	982	178 398
Skills development levies	066	543	17 550
Stocks and material	405	181	151 432
Telephone an postage	857	2 028	1 675 817
Training	462	52	184 045

Travel and subsistence	456	639	486 121
Uniforms & overalls	351	264	228 912
Other	788	340	1 580 763
		36 610	
	328		36 790 429

LOSS ON SALE OF ASSETS

Property, plant and equipment		-	(111 756)
Loss on sale of assets		-	(111 756)

Motor vehicles with a carrying value of R159 075 were disposed of resulting in proceeds of R47 320.

CASH GENERATED BY OPERATIONS

Surplus/(deficit) for the year	841	36 714	(3 668 684)
Adjustment for:-			
Depreciation and amortisation		-	3 430 715
(Gain) / loss on sale of assets		-	111 756
		129	
Contribution to provisions - current	351		820 573
		3 642	
Impairment loss	083		3 358 701
Other non-cash item: Adjustment to accumulated surpluses due to prior period errors and restatement of comparative period figures		-	(1 051 405)
Other non-cash item: Adjustments as a result of previously unaccounted for bank accounts		31	
	120		-
		40 517	
Operating surplus before working capital changes:	395		3 001 656
		(7 658)	
Increase in trade receivables	856)		(3 334 968)

(Increase)/decrease in other receivables	002	169	(57 644)
(Increase)/decrease in VAT receivable	361)	(5 280	4 793 088
Increase/(decrease) in conditional grants and receipts	000)	(2 501	1 266 883
Increase/(decrease) in trade payables	923)	(1 493	3 375 430
		23 752	
Cash generated by/(utilised in) operations	257		9 044 445

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following:

Bank balances and cash	147	22 946	31 152 203
		22 946	
Net cash and cash equivalents (net of bank overdrafts)	147		31 152 203

PRIOR PERIOD ERRORS AND RESTATEMENTS

Retrospective restatement

During the current financial period the following errors were identified with regards to transactions processed against accumulated surpluses prior to 1 July 2008. The corrections restated below have been effected to reverse the effects of those errors. The net effect on Accumulated Surpluses is summarised below:

- Transfer of Government Grant Reserve to Accumulated Surpluses		9 652 509
- Correction of opening balance on the general ledger bank account		(339 750)
- Reinstatement of debtors related amounts erroneously adjusted against Accumulated Surpluses		1 254 542

- Adjustments to opening balances of assets

(95 722)

Net increase in Accumulated Surpluses

10 471 579

Transfer of Government Grant Reserve to Accumulated Surpluses

The correction of the error resulted in adjustments as follows:

Transfer out of Government Grant Reserve to Accumulated Surpluses

9 652 509

The Government Grant Reserve arose during the Municipality's initial attempts to convert to GRAP. No documentation exists to support the reserve, furthermore the reserve is not required in terms of GRAP reporting framework.

Correction of opening balance on the general ledger bank account

The correction of the error resulted in adjustments as follows:

Reduction (credit) of general ledger bank account

(339 750)

Complete bank reconciliations were not performed during prior years. During the financial period ended 30 June 2010 the Municipality conducted a full bank reconciliation to establish correct bank balances as at 30 June 2009 and 30 June 2010. The above adjustment to bank is required to reflect the correct balances on the general ledger bank account.

Reinstatement of debtors related amounts erroneously adjusted against Accumulated Surpluses

Reinstatement of amounts relating to invalid debtors accounts

211 397

Reinstatement of previously unidentified differences relating to debtors

1 043 145

1 254 542

The above amounts relating to debtors were incorrectly adjusted directly against Accumulated Surpluses. The amounts have been reinstated and impairment of debtors has been adjusted accordingly.

PRIOR PERIOD ERRORS AND RESTATEMENTS (continued)

Restatement of prior period figures as a result of errors identified

The amounts reported in the 2008/09 annual financial statements have been restated for the errors identified below. A summary of the adjustments follows:

Statement of Financial Performance

Deficit for the year as previously reported for the year ended 30 June 2009

Capitalisation of expenditure on assets to the Statement of Financial Position	(15 097 374)
- Increase in impairment of debtors as a result of debtors balances erroneously written off against accumulated surpluses	12 727 398
- Reduction in depreciation charged	(646 623)
- Increase in employee related costs resulting from an unrecorded amount owing to SARS in respect of PAYE	487 343
- Increase in general expenditure due to reallocation of capital expenditure, previously unrecorded expenditure and expenditure captured under a revenue vote	(928 002)
- Loss on sale of asset previously not accounted for	(1 484 743)
- Reduction of repairs and maintenance expenditure	(111 756)
- Grant revenue incorrectly recognised relating to Ward Committee and IDP	19 240
- Increase in Revenue from Grants and Subsidies due to reallocation of expenditure incorrectly reflected under a revenue vote	(220 409)
- Reduction in sundry revenue recognised	1 161 827
- Increase in revenue from assessment rates \due to reversal of debtors related adjustments	(29 072)
- Increase in refuse revenue due to reversal of debtors related adjustments	411 435
	42 052
<i>Restated deficit for the year ended 30 June 2009</i>	<u><u>(3 668 684)</u></u>

Statement of Financial Position

Cash and cash equivalents

Balance previously reported as at 30 June 2009	1 455 886
Reclassified from Investments	29 484 654
Reclassification of adjusted bank balance from Bank overdraft	211 663

Restated balance as at 30 June 2009	<u><u>31 152 203</u></u>
<i>Trade and other receivables from exchange transactions</i>	
Balance previously reported as at 30 June 2009	126 156
Reclassified from Prepayments	57 644
Restated balance as at 30 June 2009	<u><u>183 800</u></u>
<i>Prepayments</i>	
Balance previously reported as at 30 June 2009	57 644
Reclassified as Trade and other receivables from exchange transactions	(57 644)
Restated balance as at 30 June 2009	<u><u>-</u></u>
<i>Investments</i>	
Balance previously reported as at 30 June 2009	29 484 654
Reclassified to Cash and cash equivalents	(29 484 654)
Restated balance as at 30 June 2009	<u><u>-</u></u>
<i>Vat receivable</i>	
Balance previously reported as at 30 June 2009	1 743 748
Increase in VAT receivable resulting from asset additions not previously recorded	126 605
Restated balance as at 30 June 2009	<u><u>1 870 353</u></u>
PRIOR PERIOD ERRORS AND RESTATEMENTS (continued)	
<i>Property, plant and equipment</i>	
Balance previously reported as at 30 June 2009	51 246 019
Capitalisation of asset related expenditure incorrectly recorded in the Statement of Financial Performance	12 727 398
Various corrections to assets purchased and disposed of not previously recorded	698 386
Adjustments to opening balances of assets as at 30 June 2008	(95 722)
Restated balance as at 30 June 2009	<u><u>64 576 081</u></u>
<i>Government Grant Reserve</i>	
Balance previously reported as at 30 June 2009	9 652 509
Transfer to Accumulated Surpluses	(9 652 509)

Restated balance as at 30 June 2009	-
Trade and other payables	
Balance previously reported as at 30 June 2009	4 227 901
Reversal of incorrect classification of debtors with credit balances	(1 061 406)
Additional creditors recognised as a result of asset additions	75 409
Recognition of amounts owing to SARS in respect of PAYE	1 098 670
Reclassification of Leave accrual from Provisions	1 508 912
Reclassification of bonus accrual from Provisions	540 752
Restated balance as at 30 June 2009	6 390 238
Current provisions	
Balance previously reported as at 30 June 2009	2 049 664
Reclassification of staff leave accrual to Trade and other payables	(1 508 912)
Reclassification of bonus accrual to Trade and other payables	(540 752)
Restated balance as at 30 June 2009	-
Current portion of unspent conditional grants	
Balance previously reported as at 30 June 2009	4 860 818
Grant income incorrectly released to revenue	220 409
Receipt of MIG funds previously not recorded	2 501 000
Restated balance as at 30 June 2009	7 582 227
Bank Overdraft	
Balance previously reported as at 30 June 2009	(1 413 514)
Correction of error with retrospective application	(339 750)
MIG receipt not previously recorded	2 501 000
Sundry revenue previously not recorded	18 248
Expenditure not captured	(531 743)
Debit orders not captured	(78 821)
Adjustments to cheques overstated on Venus	56 243
Restated balance as at 30 June 2009	211 663
Reclassified as cash and cash equivalents	(211 663)
Restated balance as at 30 June 2009	0

FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance -	212	172	-
Fruitless and wasteful expenditure current year	219	1 254	172 212
		1 426	
Fruitless and wasteful expenditure awaiting condonement	431		172 212

Incident and disciplinary steps/criminal proceedings

Interest incurred on when the primary bank account was overdraft due to timing delays in deposits. No action initiated as yet.

2 226

Interest incurred on overdue creditors accounts. The main portion of this relates to an amount due to SARS in respect of PAYE. No action initiated as yet.

794 108 172 213

Expenditure on FIFA World Cup events - Miscommunication between Council and Municipal Officials resulted in expenditure being incurred without Council approval. The matter is to be presented to Council for ratification

199 1 079

Insurance proceeds paid to a Municipal Official - A municipal vehicle was sold to an official by means of an auction. The vehicle was subsequently written off in an accident. The Municipality claimed from insurance and paid the proceeds to the Official. The matter is being investigated by the Mayor.

000 64

Total

219 1 254 172 213

ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) *Identification of impairment indicators*

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The municipality applies the impairment assessment to its assets or separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

(b) Determination of the recoverable amount of cash-generating assets

Where impairment indicators exist, the determination of the recoverable amount of assets or cash generating units require management to make assumptions to determine the fair value less costs to sell. Key assumptions on which management has based its determination of fair values less costs to sell include projected revenues, earnings multiple, capital expenditure and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of the impairment.

(c) Determination of the recoverable service amount of non-cash-generating assets

Where impairment indicators exist, the determination of the recoverable service amount of a non-cash generating asset requires management to make assumptions to determine the fair value less costs to sell and the value in use based on the depreciated replacement cost model. Key assumptions include the current replacement cost of non-cash generating assets and in certain instances an assumption about the commissioning date which determines the depreciated replacement cost of the non-cash generating asset.

FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial assets

The financial assets of the municipality are classified as follows:

Loans and receivables

Trade receivables from exchange transactions:

Refuse	3 263 533	2 759 600
Sundry debtors	121 287	169 002
	121 287	169 002

	3 384 820	2 928 602
Trade receivables from non-exchange transactions:		
Rates	14 066 645	7 033 010
	17 451 465	9 961 612
Less: impairment of debt:		
- Consumer debtors	-13 419 896	-9 777 812
- Sundry debtors	-13 308 538	-9 777 812
	-111 358	-
Total Loans and Receivables	4 031 569	183 800
<i>Cash and cash equivalents</i>		
Cash held with banking institutions	22 941 412	31 147 468
Cash on hand	4 735	4 735
	22 946 147	31 152 203
Total financial assets	26 977 716	31 336 003

Financial assets

The financial liabilities of the municipality are classified as follows:

Other financial liabilities

Employee benefits

Accrued bonus	834	375	540 752
Staff leave accrual	181	1 803	1 508 912
		2 179	
	015		2 049 664

Trade and other payables

Trade payables	303	2 148	3 250 543
Payments received in advance		698	1 090 031

	347	
	2 846	
	650	4 340 574
	5 025	
Total financial liabilities	665	6 390 238

FINANCIAL INSTRUMENTS

Fair value of financial instruments

The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values due to the short repayment terms of the instruments.

FINANCIAL RISK MANAGEMENT

Objectives, policies and processes for managing risks

The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework. The Audit Committee is in the process of assisting the municipality to establish a Risk and Fraud Committee. This committee will report to the Audit Committee. The terms of reference for the committee must still be finalised and approved by Council. The municipality's audit committee oversees the monitoring of compliance with the municipality's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The audit committee is assisted in its oversight role by internal audit.

The Municipality is exposed to the following risks:

- market risk (including currency risk, interest rate risk and price risk);
- credit risk; and
- liquidity risk.

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The policies provide written principles on interest rate risk, credit risk and in the investment of excess liquidity. The municipality does not enter into or trade in financial instruments for speculative purposes.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Market risk consists of the following risks:

(a) Foreign currency risk

The municipality does not enter into significant foreign currency transactions and has no exposure to foreign currency risk.

(b) Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing.

At year end, financial instruments exposed to interest rate risk were as follows:

	25 586	
- Short term deposits and current accounts (less than 30 days notice)	960	35 337 842
	1 246	
- Investments that may take longer than 30 days to access	825	635 645
	26 833	35 973 487
Total	785	

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has adopted a policy of only dealing with creditworthy counterparties to the extent possible and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors. The municipality intends to cleanse its trade receivable portfolio over the course of the next two financial periods. Policies have been developed to assist the Municipality with this process. Refer note 2 for more detailed information on the composition of the trade receivables portfolio.

FINANCIAL RISK MANAGEMENT

Except for trade receivables which have already been impaired the following financial assets are exposed to credit risk at year end:

Cash and cash equivalents (including investments) are held with the following counter parties:

ABSA Bank	810	13 172	33 444 033
First National Bank (Primary Banker)	123	11 922	801 770
Standard Bank	851	1 738	1 727 684
Total	784	26 833	35 973 487

COMMITMENTS**Commitments in respect of capital expenditure**

- Approved and contracted for

Infrastructure	122	41 979	25 983 868
Community Heritage			
Other			

- Approved but not yet contracted for

Infrastructure	536	8 366	40 225 308
		<u>50 345</u>	
Total	658		66 209 176

This expenditure will be financed from:

- Government Grants	658	50 345	66 209 176
	658	50 345	66 209 176

Operating leases

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Operating leases - lessee

Within one year	372	354	239 040
In the second to fifth year inclusive	657	483	835 687
Total	029	838	1 074 727

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for a term not exceeding 60 months. All but two of the leases (which are subject to a 10% annual escalation) are at a fixed rate. No contingent rent is payable.

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organised local government (SALGA)

Opening balance		
Council subscriptions	-	-
Amount paid - current	-	137 286
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	137 286

Audit fees

Opening balance	-	-
Current year audit fee	-	-
Amount paid - current year	-	-
	1 462	
Amount paid - previous years	436	1 515 056
Balance unpaid (included in payables)	436	1 515 056

The audit fee for the 2009/10 financial audit had not yet been agreed on by 31 August 2010.

VAT

VAT input receivables and VAT output payables are shown in note 8. All VAT returns have been submitted throughout the year.

**ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT
PAYE and UIF**

Opening balance	457	926	Not available
Current year payroll deductions	625	4 612	Not available
Amount paid - current year	850)	(4 274	Not available
Amount paid - previous years		-	-
Balance unpaid (included in payables)	232	1 264	(*) 926 457

(*) Amount confirmed by SARS as outstanding as at 30 June 2009

Pension and Medical Aid Deductions

Opening balance			
Current year payroll deductions and Council Contributions	233	3 029	Not available
Amount paid - current year	472)	(2 920	Not available
Amount paid - previous years			Not available
Balance unpaid (included in payables)	761	108	-

Councillor's arrear consumer accounts

During the year the municipality monitored the amounts outstanding by Councillors and sent communications to remind them to pay outstanding amounts. Due to the challenges experienced with the billing system, reliable information in this regard is not available for disclosure.

RETIREMENT BENEFIT INFORMATION

Defined contribution plans

The Municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The Municipality makes contributions to the following Medical Aid Schemes:

- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed.

CONTINGENT LIABILITY

UIF relating to Councillors' remunerations	000	2 000	-
---	-----	-------	---

The Municipality has a potential liability to settle amounts owing relating to remuneration paid to Councillors from 2003. The Municipality is investigating the matter further. The contingent liability is estimated to be approximately R2 million.

Legal action

The municipality is currently party to the following litigation:

Pending matter 1:

Case No: 301/2008 - The Municipality is being sued by a service provider for payments owing with regards to services rendered. The contact with the Municipality was signed by a Section 57 manager without proper approval (the manager has since left the employ of the municipality). Payments were made to the service provider in terms of the contact in question. The matter is still in court.

440	252	252 440
-----	-----	---------

Pending matter 2:

Case No: 291/07 - One of the municipality's former employees has instituted legal proceedings against the municipality to recover amounts owing for accrued leave, back pay and short payment on salary. The matter is still in court.

	75	
363		75 363
<hr/>		
	2 327	
803		327 803
<hr/> <hr/>		

Total for contingent liabilities

RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that are directly or indirectly controlled by the municipality;
- key management personnel, and close members of the family of key management personnel;

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004.

For compensation to councillors and other key management (refer to note 17 and 18)

Related party transactions

Services rendered to related parties

During the year the Municipality rendered services to various Councillors, the Municipal Manager and certain Section 57 personnel residing within its jurisdiction. These services include rates and refuse charges. The Municipality does not have a process in place to quantify the value of the services rendered

The services rendered to related parties are charged at approved tariffs that were advertised to the Public. Amounts outstanding are unsecured and will be settled in cash.

During the year the Municipality actively monitored the amounts outstanding by Councillors and sent communications to remind all Councillors to ensure that all accounts are paid to date.

Services rendered by related parties

The following transactions have been identified as services rendered by an entity in which a Councillor has a business interest:

Service provider and type of service	Value of the transaction	Related party
T. Siya's tents and other related services CC - Hire of tent	4 000 138	Councillor S. Tyali
Golden Security Services CC - Security services	600	Councillor DD Magodla

Grants and subsidies received

The following significant grants and subsidies were received from related parties:

National Treasury		63 589	
- Equitable share		923	41 014 669
- Municipal Infrastructure Grant		000	23 466
- Municipal Systems Improvement Grant		000	735
- Financial Management Grant		000	1 000
Department of Minerals and Energy		000	10 000
			-
		98 790	
		923	55 855 669

EVENTS AFTER THE REPORTING DATE

On 30 June 2010 Councillor Dyantyi was elected as the new Mayor, replacing Councillor Mvana. The speaker and 11 new Councillors were also sworn in. The new Councillors are as follows:

Nyalambisa N (Speaker)

Mlungu N (Ms)

Ntsasa M

Jinoyi S (Ms)
Jiya M
Malashe A
Mfecane O (Ms)
Sijadu M
Siswana N (Ms)
Buyeye N (Ms)
Tutsheni J
Klaas N (Ms)

Subsequent to year end the Municipality received confirmation that the amount of R635 644.86 held in suspense by First National Bank will be refunded to the Municipality.

**RECONCILIATION OF BUDGET SURPLUS/DEFICIT WITH THE
SURPLUS/DEFICIT IN THE STATEMENT OF FINANCIAL
PERFORMANCE**

<i>Net surplus/deficit per the statement of financial performance</i>	36 714 841
Adjusted for:	
Impairments recognised / reversed	-3 642 083
Surplus / deficit on the sale of assets	
Increases / decreases in provisions	-129 351
<i>Difference due to under spend and additional revenue recognised when compared with budget</i>	<u>1 130 584</u>
<i>Net surplus/deficit per approved budget</i>	<u><u>34 073 991</u></u>

4.2 Budget to actual comparison

DEPARTMENT	BUDGETED AMOUNT	BUDGET YEAR TO DATE	ACTUAL YEAR TO DATE	BALANCE	VARIANCE	% VARIANCE	% SPENT
Executive	2,557,544.00	2,557,544.00	1,940,028.88	617,515.12	617,515.12	76	76
Council	3,264,075.00	3,264,075.00	2,811,768.76	452,306.24	452,306.24	86	86
HR	1,907,277.00	1,907,277.00	1,564,974.98	342,302.02	342,302.02	82	82
Admin	2,255,884.00	2,255,884.00	1,977,885.03	277,998.97	277,998.97	88	88
Communications	125,000.00	125,000.00	49,393.44	75,606.56	75,606.56	40	40
Finance	16,897,859.00	16,897,859.00	8,533,380.09	8,364,478.91	8,364,478.91	50	50
Information Tech	1,383,000.00	1,383,000.00	1,225,027.00	157,973.00	157,973.00	89	89
Property Services	1,712,071.00	1,712,071.00	1,393,213.43	318,857.57	318,857.57	81	81
IDP & LED	10,468,491.00	10,468,491.00	5,676,024.82	4,792,466.18	4,792,466.18	54	54
Town Planning	365,800.00	365,800.00	323,069.00	42,731.00	42,731.00	88	88
Roads	35,352,890.00	35,352,890.00	31,455,812.09	3,897,077.91	3,897,077.91	89	89
Housing	8,953,957.00	8,953,957.00	4,991,070.81	3,962,886.19	3,962,886.19	56	56
Traffic Police	553,825.00	553,825.00	422,845.44	130,979.56	130,979.56	76	76
Pound	81,710.00	81,710.00	20,187.30	61,522.70	61,522.70	25	25
Community Halls	0.00	0.00	0.00	0.00	0.00		
Libraries	10,500.00	10,500.00	0.00	10,500.00	10,500.00	0	0
Cemeteries	12,000.00	12,000.00	1,051.00	10,949.00	10,949.00	9	9
Sport & Recreation	2,507,000.00	2,507,000.00	2,514,153.96	-7,153.96	(7,153.96)	100	100
Solid Waste Management	456,276.00	456,276.00	319,808.83	136,467.17	136,467.17	70	70
Public toilets	53,000.00	53,000.00	0.00	53,000.00	53,000.00	0	0
Street Lights	973,588.00	973,588.00	457,310.00	516,278.00	516,278.00	47	47
		0.00		0.00	0.00		
TOTALS	89,891,747.00	89,891,747.00	65,677,004.86	24,214,742.14	24,214,742.14	73	73

PERSONNEL COSTS	BUDGETED AMOUNT	BUDGET YEAR TO DATE	ACTUAL YEAR TO DATE	BALANCE	VARIANCE	% VARIANCE	% SPENT
PERMANENT STAFF							
Basic Salary	15,365,759.00	15,365,759.00	12,409,892.00	2,955,867.00	2,955,867.00	81	81
Overtime	110,000.00	110,000.00	36,399.00	73,601.00	73,601.00	33	33
Bonus	2,939,216.00	2,939,216.00	769,293.00	2,169,923.00	2,169,923.00	26	26
Leave Pay	500,000.00	500,000.00	38,339.00	461,661.00	461,661.00	8	8
Travelling Allowance	600,000.00	600,000.00	812,765.00	(212,765.00)	(212,765.00)	135	135
Standby Allowance		-	5,400.00	(5,400.00)	(5,400.00)		
Pension Fund	2,278,389.00	2,278,389.00	2,047,670.00	230,719.00	230,719.00	90	90
Cellphone Allowance	577,138.00	577,138.00	88,513.00	488,625.00	488,625.00	15	15
Medical Aid	1,000,474.00	1,000,474.00	892,626.00	107,848.00	107,848.00	89	89
Housing Allowance	144,014.00	144,014.00	115,637.00	28,377.00	28,377.00	80	80
UIF	149,381.00	149,381.00	115,985.00	33,396.00	33,396.00	78	78
Night Allowance		-	29,161.00	(29,161.00)	(29,161.00)		
Bargaining Council	6,244.00	6,244.00	4,969.00	1,275.00	1,275.00	80	80
Subsistence & Travelling		-	274,901.00	(274,901.00)	(274,901.00)		
Backpay		-	71,781.00	(71,781.00)	(71,781.00)		
Acting allowance		-	717,855.00	(717,855.00)	(717,855.00)		
		-					
COUNCIL		-		0.00	0.00		
Basic	9,480,801.00		7,705,558.00	1,775,243.00	1,775,243.00	81	81

Salary	0	9,480,801.00					
Travelling Allowance	2,737,728.00	2,737,728.00	2,565,126.00	172,602.00	172,602.00	94	94
Backpay		-	598,970.00				
Medical Aid		-					
		-					
CASUALS		-					
Basic Salary	1,645,124.00	1,645,124.00	2,145,402.00	(500,278.00)	(500,278.00)	130	130
Back pay		-	23,570.00				
UIF		-	21,148.00				
Overtime		-	47,905.00				
		-					
TOTAL	37,534,268.00	37,534,268.00	31,538,865.00	5,995,403.00	5,995,403.00	84	84

ANNEXURE "D"

EXPENDITURE PER LINE ITEM	BUDGETED AMOUNT	BUDGET YEAR TO DATE	ACTUAL YEAR TO DATE	BALANCE	VARIANCE	% VARIANCE	% SPENT
General Expenses	46,842,040.00	46,842,040.00	31,717,969.54	15,124,070.46	15,124,070.46	68	68
Repairs & Maintenance	3,339,446.00	3,339,446.00	2,725,788.54	613,657.46	613,657.46	82	82
Contribution to fixed assets	36,971,351.00	36,971,351.00	33,082,447.20	3,888,903.80	3,888,904	89	89
TOTALS	87,152,837.00	87,152,837.00	67,526,205.28	19,626,631.72	19,626,631.72	77	77

ANNEXURE "E"

OWN REVENUE SOURCE	BUDGETED AMOUNT	BUDGET YEAR TO DATE	ACTUAL YEAR TO DATE	BALANCE	VARIANCE	% VARIANCE	% RECEIVED
Rates	1,573,040.00	1,573,040.00	1,446,534.40	126,505.60	126,505.60	92	92
Refuse	280,900.00	280,900.00	14,485.99	266,414.01	266,414.01	5	5
Other	4,884,682.00	4,884,682.00	3,535,305.33	1,349,376.67	1,349,377	72	72
TOTALS	6,738,622.00	6,738,622.00	4,996,325.72	1,742,296.28	1,742,296.28	74	74

GRANTS & SUBSIDIES	BUDGETED AMOUNT	BUDGET YEAR TO DATE	ACTUAL YEAR TO DATE	BALANCE	VARIANCE	% VARIANCE	% RECEIVED
Equitable share	63,589,923	63,589,922.86	63,589,923	0	-	100.00	100
MIG	23,438,000	23,438,000.00	20,965,000	2,473,000	2,473,000.00	89.45	89
MSIG	735,000	735,000.00	735,000	0	-	100.00	100
FMG	1,000,000	1,000,000.00	1,000,000.00	0	-	100.00	100
LGSETA	50,000	50,000.00	121,002.94	-71,003	(71,002.94)	242.01	242
Electrification Programme	10,000,000	10,000,000.00	10,000,000	0	-	100.00	100
TOTALS	98,812,922.86	98,812,922.86	96,410,925.80	2,401,997.06	2,401,997.06	98	98

4.3 Grants and transfers' spending

Grant details		1/07/ to 30/09	01/10 to 30/12	01/01 to 30/03	01/04 to 30/06	Total

Project name	Donor name	BF amount	Rec.	Spent	Rec.	Spent	Rec.	Spent	Rec.	Spent	Rec.	Spent
MIG	N/T		3,498,000	3,315,927	4,998,000	5,871,281	12,469,000	2,166,078	0	12,218,767	20,965,000	23,572,053
MSIG	N/T		735,000	0	0	160,352	0	41,403.51	0	611,173.73	735,000	812,929.75
FMG	N/T		1,000,000	381,318	0	516,482	0	674,687	0	191,603	1,000,000	1,764,090
INEG	DM E		6,000,000	0	4,000,000	7,949,400	0	1,268,755	0	0	10,000,000	9,218,155

4.4 Meeting of Donors' requirements in respect of conditional grants

All grants were fully utilised for 09/10 financial year

4.5 Long term contracts entered into by the municipality

The municipality reports on the LTC every quarter to the National Treasury. In the financial year under review, we had one Long Term contract existing. The contractor details are as follows:-

Contractor name: RPS Ilangabi Consulting Engineers

Purpose: Electrification Project

Date established: 29/04/2009

Total Value R10 million

4.6 Annual performance as per key performance indicators in financial viability

	Indicator name	Target set for the year R(000)	Achievement level during the year R(000)	Achievement percentage during the year
1	Percentage expenditure of capital budget	34 927 578	33 082 447.20	95 %
		Target set for the year (35%) R(000)	Achievement level during the year R(000)	Achievement percentage during the year vs the operational budget
2	Salary budget as a percentage of the total operational budget	37 534 268	31 538 865	30%
		Target set for the year (20% or less) R(000)	Achievement level during the year R(000)	Achievement percentage during the year vs the actual revenue
3	Total actual trade creditors as a percentage of total actual revenue	52 607 554	34 443 758.08	34%
		Target set for the year (80% and more) R(000)	Achievement level during the year R(000)	Achievement percentage during the year
4	Total municipal own revenue as a percentage of the total actual budget	6 738 622	4 996 325.72	5.3%
		Target set for the year R(000)	Achievement level during the year R(000)	Achievement percentage during the year
5	Rate of municipal consumer debt reduction			
6	Percentage of MIG budget appropriately spent	22 266 100	23 572 053	106%
7	Percentage of MSIG budget appropriately spent	735 000	812 929.75	111%

4.7 The Audit committee functionality

The Audit Committee of Mbashe Local Municipality was established 14 January 2009, with its first meeting taking place on the 11 February 2009.

The AC has three independent members appointed by Council on the 10 December 2008, namely:

- ☐ Dr Winston Plaatjes (Chairperson)
- ☐ Adv. Albert Max Bluhm
- ☐ Mr. Sizwe Matthew Mbewu

Other invited members (in no particular order) by the Audit Committee during the period under review include:

Department of Local Government	☐ Mr. Nkosinathi Gxasheka ☐ Ms B Mdoda ☐ Mr. Xolani Ntinkinca
Auditor-General Office	Mr. Hitesh Kika
The Office of the Mayor may be present at Audit Committee meetings as an invitee only. However, the Mayor has a standing invitation from the Audit Committee.	☐ Ms F. Mvana ☐ Ms P. Dyantyi ☐ Ms N.O. Mfecane ☐ Ms N. Nyalambisa (Speaker)
Mbashe: Office of the Municipal Manager	Mr. Sabelo Dumezweni (Acting MM)
Mbashe: Finance	☐ Ms Sindiswa Mini (CFO)
Mbashe: Human Resource and Administration	☐ Mr. Siphetho Gada (Manager)
Mbashe: Secretariat	Ms Nosiphiwo Mgweba
Mbashe: Internal audit Unit	Mr. Sisa Baliso (Internal auditor)
Mbashe: IDP and LED	Mr. Mqingwana (Manager)
Mbashe: Technical Services	Mr. Molakalaka (Manager)
Mbashe: Community Services	Mr. Bhongo (Acting Manager)
KPMG – Service Provider	Mr. Warren Els and Mr Gary Simms
Mbashe: Legal & Compliance Officer	Mr. Mkata (one meeting and had since

As per Audit Committee Charter, the Chairperson of the Audit Committee is elected annually amongst the independent members. At the meeting 2 February 2010 it was agreed that Dr Plaatjes be re-elected as Chairperson of the AC.

In terms of Section 166 (4) (b) of MFMA, the Audit Committee must meet as often as required to perform its functions, but at least four (4) times a year.

In so far as the last twelve months is concerned, that is December 2009 to November 2010, the Audit Committee managed to hold six effective functional Audit Committee meetings:

- ☐ 02 December 2009
- ☐ 09 February 2010
- ☐ 07 April 2010
- ☐ 22 June 2010
- ☐ 11 August 2010
- ☐ 13 October 2010

The Audit Committee congratulates the Finance Department for their efforts, although the audit report is still a disclaimer, as much more documentation was made available for the year under review and if the rate of improvement continues, especially in the areas of administration and filing systems as previously suggested, the audit report will improve substantially.

We would like to thank the Council, the various Acting Municipal Managers, the Chief Financial Officer, the internal audit unit, the representative from the Department of Local Government, the office of the Auditor-General South Africa for the support they have provided during the period under review.

4.8 Arrears in property rates and service charges

The following is the summary of the debtors' age analysis per sector as at the end of the year 2009/2010:-

SECTOR	30 days	60 days	90 days	More than 90 days
Households	340 375	323 867	7 281 482	8 286 824
Business	185 760	157 842	4 471 739	4 998 882
Churches	-	-	-	-
Government	37 496	9 202	757 309	844 524

4.9 Anti-corruption strategy

The department of Local Government in the Eastern Cape assisted the municipality by doing the draft Anti – corruption strategy which was later tabled to the municipal council. The municipal council did not adopt the strategy but looked at merging the strategy with the risk management strategy in the coming year. Various workshops were conducted on the fraud prevention and risk management .

Chapter 5: GOOD GOVERNANCE AND PUBLIC PARTICIPATION

5.1 Overview of the Executive and Council functions and achievements;

The political changes occasioned by the establishment of the COPE, created a very chaotic situation with almost half the number of the total Councillors being expelled by their party. The changes were widely felt and had far reaching implications for our Council and among those expelled were the key members of the Council including the former Speaker, former Mayor and former members of the Executive Committee. Out of ten members of the Exco, only three remained in good standing, whilst the rest was expelled and therefore ceased to be Councillors of our Municipality. The above state of affairs led to the Council structures not functioning in the manner anticipated. There was always a cloud of uncertainty hanging over the Municipality. Even the administration got affected one way or another in the political squabbles with the result that their effective functioning was greatly compromised. A number of critical and strategic positions were not filled on a permanent basis, but on acting capacities.

In the midst of that confusion, the administrative arm of Council kept the home fires burning in spite of the difficulties they had to contend with.

5.2 Public participation and consultation

- In accordance with the Local Government Municipal Systems Act, we hold regular IDP Representative Forum meetings in drafting the IDP. At the beginning of the planning process, the duly empowered official places an advertisement in the local newspaper for all interested stakeholders to declare their interests in participating in the planning and budgeting process of the Municipality. In the year under review, we have had a wide range of participating stakeholders like business, ratepayers, emerging farmers, ward committees, CDWs, traditional leaders, government departments and parastatals. The public is again invited to submit their views and comments once the draft IDP and budget has been presented to the Council.
- Our Municipality has adopted the Community Based Planning process of developing the IDP. It is in the process that starting at a village – ward – unit and ultimately to the Mbhashe wide participatory planning process. In this way, the views of the ordinary citizen at a village level are taken care of in the planning process.
- On the top of the above, the Municipality undertakes road shows that were a certain identified centres, where not more three wards would be clustered together. Various teams composed of Councillors and senior management usually attend and make elaborate presentation and field questions that may arise out of these sessions. The outcomes of which are incorporated in the final product of the IDP.

Involvement of Traditional Leaders

- Mbhashe Municipality is among the few Municipalities in the Eastern Cape that have embraced the participation of the Traditional Leaders in the affairs of local government to the extent that our Municipality was identified as pilot site for the functioning and participation of Traditional Leaders in Local Government. Our Municipality also boasts on being the seat of the AmaXhosa Kingdom, located in Ngqadu Great Place in Willowvale. His Majesty, King Zwelonke Sigcau is by virtue of his status, officiating in any function within Mbhashe that befits his status like the visit by the Ministers.
- Traditional Leaders are part of the critical stakeholders participating in the IDP Representative Forum. As if that is not enough, they also form an integral part of the day to day operations of the Municipality through their nine representatives in our Council Structures. They participate in Council, Standing Committee and any other formation within the Council. In matters of participation in the Council, they are given full status to air their views through their representatives.

Customer Care

- It is in this financial year that Mbhashe has seen it fit to establish the Customer Care unit by appointing the Customer Care official. The full organogram of the unit has been developed but not fully populated as only one out of about seven staff is appointed so far. Once the fully fledged unit is established and posts populated, it is hoped that all the queries and complaints of the Mbhashe community will be handled even more efficiently and properly.

5.3 Ward committees' establishment and functionality

- Mbhashe has twenty six (26) wards stretching from Dutywa, Willowvale and Elliotdale areas. In all the wards, ward committees have been duly established by the Council under the stewardship of the Office of the Speaker. Once established, the ward councillors as chairpersons of these structures take over and manage their functionality through briefings on the resolutions taken in the Council and seek views of the community and ward committee. Ward Committee members are given sitting allowance of R50 per sitting and added to that is the subsistence and travel allowance which is generally based on the distance travelled and/or costs incurred.
- A dedicated Council Support Clerk has been appointed to support the functioning of these very important structures of Council. The Council is still considering establishing a fully-fledged unit to support, among other things, the functioning of the Ward Committee, for it has been established that one official cannot do the job.

- There are still challenges of channelling the views of the ward committees through the Council structures. Though established, one cannot confirm the proper functioning of these structures except during the IDP planning process. The Municipality is also challenged in managing the payment of the stipends and sitting allowances to the Ward Committee members. This is cumbersome and tedious process that is open to abuse and fraud.

5.4 Community Development workers performance monitoring

- There was one CDW per each ward; up until two have passed on (may their soul rest in peace). From unconfirmed reports, they do wonderful work of visiting the homes in their areas of operation but such work is not properly co-ordinated by the Municipality, to the extent that they do not report to the Municipality but to the Department of Local Government and Traditional Affairs. There is great functional and turf conflict between the ward councillors and the CDWs – each one suspects that the other is doing one another’s job.
- Some attempts are under way to harmonise the relations of the two and such is coordinated in the office of the speaker.

5.5 Communication strategy

In the year under review the municipality did not have the communication strategy and has plans to develop the marketing and communication strategy in the in the year 2010/2011.

The ad-hoc communication is led by the Communications officer who reports to the corporate services manager. Programs that the communications officer leads include the following:-

- Meeting stakeholders through limbizo
- Communicating the holding of IDP/Budget/PMS representative forums and Roads shows
- Linking directly with local newspapers and radio stations

Because there’s no proper strategy adopted, the communications section lack proper infrastructure to run the department properly.

5.7 Intergovernmental Relations

The IGR forum was launched in 2006 and representatives from various government participated in the meeting.

In the year under review, there’s only one IGR forum meeting that was held. The meeting was on the 10th of December 2008. Again various government departments participated and a clear programme of action was developed. Various government departments participated in the IDP review process; such were

South African Police Services, Department of Agriculture, Department of Social Development, Department of Health, and Correctional Services.

5.8 Legal matters

5.8.1 Setting up of Legal Units

The municipality does have the position of the compliance and legal officer in the organogram but the post is vacant, and currently the municipality outsource all its legal services. The names of firms that are used are given in 5.8.2.

5.8.2 Management of Legal Risks

5.8.2.1 THE LIST OF LEGAL CASES OF MBHASHE LOCAL MUNICIPALITY

The following is the list of all the legal cases the Municipality is involved in, as contained in the legal matters file in the office of the Municipal Manager. A point needs to be made, that the writer takes no responsibility on the outcomes and nature of these cases, as some are still on-going. This responsibility would be ably carried out by the Compliance Officer, whose position is vacant though budgeted for. The municipality does not have the policy to manage legal risks, however there are plans to merge the fraud prevention policy and risk management policy.

MATTER	CASE NUMBER	OUR REPRESENTATIVE	BACKGROUND	STATUS
Tose Hlam	1250/2010	LL Majali	Willowvale invasion of the Municipal land and illegal demarcation of sites	On order of eviction has been granted by the High Court on 12 November 2010 and is implemented by the Sheriff
Patrick Mlakuhlwa	1253/2010	LL Majali	Same as above	Same as above
Maqhula and others	135/10	Sonamzi & Mkata	The dispute arose out of the arrears in rental not being paid by the defendant	The final order was granted on the 11 March 2010 in favour of the Municipality
Sunshine Makuni		“	“	“
Nceba Matsiliza		“	“	The final order was granted on 11 March 2010 in favour of the Municipality
Simpiwe Lucas		“	“	“

Zolisa Siswana		“	“	“
ZCC – Dutywa		Jikwana Nginda & Associates	Lease agreement between Mbhashe Municipality and ZCC-Dutywa	
Ndikinda & Others	1330/09	Mancotywa Ndzabela incorporated		The matter has been settled out of court on the instance of the plaintiff (Mbhashe) and each party to settle own costs
N.E. Rulashe	242/06	Jikwana Nginda & Associates Inc.	This is the matter with Mr N.E. Rulashe as the applicant, claiming some damages as a result of the fire originating from the Dutywa landfill site next that allegedly destroyed his crops	The matter is still in the Dutywa court roll
Washington Lizwe Habe		Jikwana Nginda and associates		
Kunukunu Siwabayi & Xolile Mpetsheni		Jikwana Nginda Inc	Their goats and sheep died in the Elliotdale pound whilst in our custody. Xolile lost 4 sheep and Kunukunu lost 4 goats	Summons have been issued against the Municipality to pay the applicants the stated amounts that include the sheriff costs
Andile Mafu			Lease agreement	
Kenneth Mcopele	41/09		Lease agreement	
Ruth Onukwe	1248/10			
Tamsanqa Somkoko	1252/10			
Nozibele Xhungu & 19 Others	2085/2010	Legal opinion sought suggested that there is no need to engage the legal representative as the Municipality	The matter is between the expelled former Councillors and IEC and others. Mbhashe is the 5 th respondent and not directly involved with the case except for its financial implications if the applicants may win the case.	The matter is to be heard on a date to be set some time to come
William Mkosi & 55 others		Mancotywa	Illegally occupying	

		Ndzabela Inc.	the Municipal commonage in Willowvale	
T. Marafane				
DMJ CC & Other vs Uncedo Taxi Association & others	965/09	Sonamzi & Mkata	This matter is between the DMJ bus company and Uncedo Taxi association regarding the use of the Dutywa bus rank. The Municipality is cited as 4 th respondent and not directly involved but remains interested party	Final order has been given in favour of the applicant, barring any further interference with their operations
L.W. Clock & others	P.146/08	N.S. Nombabela Inc.		
Willow vale Uncedo Service Taxi Association vs Ntsevula Mkiti & others	1057/10			
MEC for Local Government		Mvuzo Notyesi Inc.		
Mokate Monk & Duplesis cc	415/09	Jikwana Nginda & Associates Inc.		
Bethel Gospel Assembly Ministries	42/09	L.L. Majali		
Multitude Jobela		Sonamzi & Mkata		
Combo Consulting cc		Jikwana Nginda & Associates Inc		
New Rest, Farmer & GPO		"		

PART 3: ANNEXURES

ANNEXURE

The annexure is made up of the following documents arranged in the sequence below:

1. Full AG reports;
2. Plan of action of the municipality to address findings of the AG report;
3. Audit committee report
4. Approved Municipal Structure (Staff establishment);
5. Council resolutions adopting the Annual Report

ANNEXURE 1

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND REPORT ON PREDETERMINED OBJECTIVES OF MBHASHE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010

REPORT ON THE FINANCIAL STATEMENTS

Introduction

3. I have audited the accompanying financial statements of the Mbhashe Local Municipality (the municipality), which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages 4 to 41.

Accounting officer's responsibility for the financial statements

4. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Municipal Finance Management Act (MFMA). 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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

5. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
6. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
7. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for disclaimer of opinion

Trade and other receivables

9. The gross consumer debtors balance of R17.330 million (2009:R9.792 million), as disclosed in note 2 to the financial statements, does not agree to the balance of R15.960 million (2009: R9.839 million) per the age analysis. The entity did not reconcile the difference of R1.369 million (2009:R47 336) between the financial statements and the underlying accounting records. Consequently the accounts receivable balance is overstated by R1.369 million (understated 2009: R47 336).
10. Furthermore, the municipality did not apply the requirements of debt impairment in accordance with *South African Statement of Generally Accepted Accounting Practice, IAS 39, Financial instruments: Recognition and measurement*. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and allocation of the provision for bad debts impairment amounting to R14.145 million (2009: R9.777 million) as disclosed in note 2 to the financial statements.
11. Due to the matters referred to in the preceding paragraphs I could not determine the effect on the debtors account balances or classes of transactions contained in the financial statements.

Employee related costs

12. The municipality could not provide complete employee files and other appropriate documentation in support of salary payments, and other allowances. In addition not all employees selected for testing presented themselves for physical verification.
13. In addition leave taken to the value of R721 272 (2009: R0) was not recorded in the accounting records, resulting in the leave accrual, as disclosed in note 7 to the financial statements, being overstated by R721 272 (2009: R0).
14. As a result of the above I was unable to obtain sufficient appropriate evidence relating to the occurrence and accuracy of employee related costs of R21.806 million (2009: R20.931 million) disclosed in note 17 to the financial statements. The municipality's records did not permit the application of alternate audit procedures.

Property, plant and equipment

15. The municipality does not have policies and procedures in place which are aligned with the recognition requirements of GRAP 17 – *Property, Plant and Equipment*. Consequently capital assets purchased during the year were incorrectly allocated to operating expenditure and as a result property, plant and equipment is therefore understated by R1.345 million (2009: R19.000 million).

Revenue

16. I was unable to verify that all revenue earned from property rates, service charges and other revenue was accounted for in the financial statements of the municipality, or whether the revenue that was disclosed was accounted for at the correct amounts, as management was unable to provide monthly billing reports totalling R9.410 million requested for audit purposes.
17. In addition, receipts for revenue collected at Elliotdale, were not submitted for audit purposes, and thus the possibility of fraud could therefore not be excluded.
18. As a result of the above I was unable to obtain sufficient appropriate evidence relating to the occurrence, accuracy, classification and completeness of consumer revenue amounting to R9.948 million (2009: R6.045 million), as disclosed in notes 11, 12 and 16 to the financial statements.

Value Added Taxation (VAT)

19. The municipality as a registered VAT vendor should claim input vat on all qualifying expenditure transactions. Numerous instances where input vat was not claimed on qualifying transactions were identified during the course of the audit. As a result operating and capital expenditure are overstated and the VAT receivable understated by these amounts. I was not able to determine the extent of the error.

20. Consequently, I was not able to verify the completeness, existence and valuation of the VAT balance amounting to R7.150 million (2009: R1.870 million) as disclosed in note 8 to the financial statements.

Capital commitments

21. According to note 29 of the annual financial statements approved and contracted capital commitments at 30 June 2010 amounted to R41.979 million (2009: R25.983). However, contractual commitments amounting to R3.211 million (2009: R0) were found not to be included in the commitments register and the commitments is therefore understated by this amount.
22. In addition, the payments and contract information used to calculate the outstanding commitment amounts were found to be inaccurate and to include amounts that were not yet contracted, resulting in an overstatement of R29.851 million (2009: R0) to the amount as disclosed in the note.

Cash and cash equivalents

23. An additional bank account was identified through communication with the bank that was not recorded in the general ledger of the municipality. The municipality could not provide sufficient and appropriate evidence in respect of any transactions processed against this bank account.
24. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the impact of any unrecorded transactions on the financial statements.

Irregular expenditure

25. Section 112(1) of the MFMA requires the municipality to implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective. Payments amounting to R25.449 million (2009: R41.528 million) were either made in contravention of the supply chain management requirements or were not provided for audit purposes. The amount was not included in irregular expenditure, disclosed in note 25 to the financial statements, resulting in irregular expenditure being understated by R25.449 million (2009: R41.528 million). The possibility of fraud could therefore also not be excluded.

Trade and other payables

26. The entity did not accrue for invoices in respect of goods and services amounting to R4.223 million (2009: R3.6 million). If these invoices had been accrued for the effect would have been to reduce the surplus for the period, and the accumulated surpluses by R4.223 million (2009: R3.6 million) and to increase the accrued liability in the statement of financial position by an equal amount.

Unauthorised expenditure

27. Section 53(c)(i) of the MFMA requires that the municipality approves its annual budget before the start of the related financial year. I was not provided with evidence of this approval for the year under review, and

could therefore not place reliance on the budget presented for audit purposes. Consequently, I am unable to determine the level of unauthorised expenditure that may have been incurred.

Disclaimer of opinion

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

Emphasis of matter

29. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

30. As disclosed in note 24 there are material misstatements in the corresponding figures which were identified during our audit of the financial statements of the current year relating to the following:

- Investments totalling R29.484 million were reported in the prior year financial statements. Due to their liquid nature these accounts were reclassified as cash and cash equivalents and are therefore now reported in note 1 to the financial statements.
- Assets totalling R12.727 million were expensed in the previous year financial statements as operating expenditure. This capital expenditure has been reclassified as property, plant and equipment and is therefore now reported in note 4 to the financial statements
- The government grant reserve totalling R9.652 million was transferred to accumulated surpluses as the reserve is not permitted in terms of GRAP reporting framework. This correction is disclosed in note 24 to the financial statements.

Irregular expenditure

31. As disclosed in note 25.1 to the financial statements, the municipality has incurred R376 466 (2009: R0) of irregular expenditure during the year under review relating to expenditure paid from the Mayors discretionary fund not in accordance with the policy.

Fruitless and wasteful expenditure

32. As disclosed in note 25.2 to the financial statements, the municipality has incurred R1.846 million (2009: R172 212) of fruitless and wasteful expenditure during the year under review relating to possible excessive expenditure on travel, accommodation and workshops.

Material losses/ impairments

33. As disclosed in note 2 the financial statements impairments of debtors were recognised with a value of R13.3 million during the year under review.

Additional matters

34. I draw attention to the matters below. My opinion is not modified in respect of these matters:

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

35. In terms of the PAA of South Africa and *General notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009* I include below my findings on the report on predetermined objectives, compliance with section 45 of the Municipal Systems Act and financial management (internal control).

Predetermined objectives

36. Material findings on the report on predetermined objectives, as set out on pages **xx to xx**, are reported below:

Non-compliance with regulatory and reporting requirements

37. No quarterly reporting on performance information

No quarterly reports on the progress in achieving measurable objectives and targets were prepared by the municipality to facilitate effective performance monitoring, evaluation and corrective action, as required by Treasury Regulation Section 5.3.1.

38. Submission of the IDP to the MEC for Local Government

The municipality did not submit their IDP to the MEC for local government in the province within 10 days of its adoption as required by section 32 of the Municipal Systems Act.

39. Internal auditing of performance measurements

The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Usefulness of information

40. The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable and are targets specific, measurable and time bound.

The following audit findings relate to the above criteria:

41. No key performance indicators

Sufficient appropriate key performance indicators in relation to objectives of the IDP were not provided or available from the municipality. Furthermore targets recorded in the IDP are not well defined.

42. Planned indicators do not compare current year versus prior year performance

Sufficient appropriate key performance indicators in relation to objectives of the IDP do not compare current year performance versus prior year performance.

Reliability of information

43. The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source date or documentation.
- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

44. No reporting against predetermined objectives, indicators and targets

The municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3) (c) of the MFMA.

Compliance with laws and regulations

Municipal Finance Management Act (Act 56 of 2003)

Accounting officers and municipal officials have adhered to their statutory responsibilities

45. Contrary to the requirement of section 63 of the MFMA, the municipality did not have a complete fixed asset register.

46. Contrary to the requirements of section 64 of the MFMA, the debtor's age analysis does not agree to the municipality's general ledger.

47. Contrary to the requirements of section 62 of the MFMA, the accounting officer did not prevent irregular and fruitless and wasteful expenditure.
48. The financial statements submitted for audit did not comply with section 122(1) of the MFMA, as material misstatements were identified during the audit, certain of these were corrected by management and those that were not are included in the basis for qualified opinion paragraphs.

Municipal Structures Act (Act 117 of 1998) (MSA)

Accounting officers and municipal officials have adhered to their statutory responsibilities

49. Contrary to the requirements of section 18 of the MSA, quarterly meetings were not held by the municipality Council.

INTERNAL CONTROL

50. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and DORA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
51. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.
- Leadership

Management's philosophy is positive, however, oversight responsibilities over financial reporting, compliance with laws and regulations and internal control are not properly exercised. The critical position of municipal manager remained unfilled, with the position being occupied by an acting employee.

Management do not have an effective system to monitor tasks delegated to other staff members to ensure that the tasks are completed at the required quality. Excessive reliance is placed on service providers and there is a lack of oversight over municipal policies and procedures.

Findings on non-compliance and a lack of measurability relate to a lack of required actions to address risks relating to the achievement of adequate performance reporting

- Financial and performance management

The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit and pertinent information is not identified in a form and time frame to support financial and performance reporting.

There was a lack of review, reconciliation and record-keeping of supporting documentation for the reporting on predetermined objectives.

The municipality did not have adequate systems for the recording, monitoring and reporting of commitments, property, plant and equipment, trade and other payables and irregular expenditure.

- Governance

The internal audit function is not effective due to a lack of capacity within the unit. As a result the municipality lost any benefit which an effective internal audit might have added to mitigate any of the items reported above.

The municipality does not have approved audit and risk committee charters. While the prevention and detection of fraud, and other processes regarding fraudulent activities, have also not received the appropriate and expected attention necessary.

The municipality has not implemented a performance audit committee to govern performance related matters.

OTHER REPORTS

52. No other reports or investigations are in progress or planned.

Auditor-General

Place of signing

Date of signing



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE 2: ACTION PLANS

FINANCE DEPARTMENT

ACTION PLAN TO ADDRESS AUDIT QUERIES FOR 10/11 FINANCIAL YEAR				
Exception Ref	Finding	Management Action	Responsible Person	Timeframe
EX.56	Information relating to the financial reporting process not provided for audit purposes Audit finding	Internal Controls Procedure Manuals to be sent to council	CFO	Next council
EX.134	Disclosure of contingent liabilities not complete	A register of all cases should be maintained & updated regularly.	M.M./CFO	Monthly
EX.159	Detailed transaction listing for the rates and service charges accounts was not submitted	Staff training on extracting the information	CFO	28 February 2011
EX.6	Bank account per confirmation not presented on trial balance	Information has already been sourced from the bank, the municipality need to change signatories.	CFO	28 February 2011
EX.84	Bank transactions not processed in general ledger (Venus) Audit finding	The municipality performed manual reconciliation and is updating bank reconciliation into the system.	CFO	31 March 2011
EX.89	Prior year cheques not supplied for audit purposes	Invoices were submitted to the auditors. Still to make sure that vouchers are safely kept	SFO/Expenditure Accountant/Creditors clerk	Monthly

EX.41	Overstatement of Capital commitments	Contract register will be updated with the assistance of MIG officials. Only signed contracts will be reported as committed.	CFO/Technical Services Manager	30 June 2011
EX.105	No supporting documentation attached with cheque payment	Supporting documents will be attached to all cheques payments	Expenditure Accountant/SFO	Monthly
EX.1	-Fixed assets additions incorrectly raised inclusive of VAT	VAT will be done in house and all the inconsistency be corrected before the year end	CFO/SFO	30 May 2011
EX.3	Detailed complete fixed asset register not provided for audit purposes (Repeat)	The municipality is going to prepare phase 2 of infrastructure assets and the asset register	SCM/CFO/SFO	?February 2011
EX.5	Non-compliance with Transitional Provision Directive 4 in the prior year of assessment	More in depth analysis will be conduct in to understand the directive & implement correctly	CFO	30 June 2011
EX.7 & 57	Fixed assets listing not adequately complete & updated timeously at year end	All assets will be listed in the Asset Register & be updated monthly	SCM/Asset clerk	Monthly
EX.82	Fixed asset prior year additions supporting documents not provided for audit purposes.	Files for prior years are kept safe	Creditors clerk/ Expenditure Accountant	28 February 2011
EX.12 & 27	Inventory information not provided for audit purposes (Repeat)	The municipality is looking for suitable space for stores. The plan for stores has already been developed.	CFO/Technical Services Manager	30 May 2011
EX.17	Finance leases incorrectly recorded as operating leases	Leases will be assessed & classified properly.	CFO/SFO/SCM	28 February 2011

EX.19	Lease contract not provided for audit purposes	All lease contracts will filed and kept safe	SCM	28 February 2011
EX.16	Fixed asset register does not reconcile to the financial statements and trial balance (Repeat)	Fixed asset register need to be updated monthly with the additions and be checked against the trial balance	Asset clerk/SFO	Monthly
EX.4	No supporting documentation for additions provided for audit purposes	Supporting documents are kept safe & will be provided	Creditors clerk/ expenditure Accountant	28 February 2011
EX.20	Lease contracts omitted from the municipality's lease calculations	Lease contracts which have expired will not be included in the calculations. Calculations will be based on the lease register.	SCM/SFO	28 February 2011
EX.114	No supporting documentation for expenses submitted for audit purposes	All expenses incurred will have supporting documentation	Expenditure Accountant/ Creditors clerk	31 March 2011
EX.119	Capital expenditure incorrectly classified as operating expenditure	Each expenditure needs to be classified starting from requisition & recorded accordingly	Management	Ongoing
EX.203	Fraudulent indicators within the procurement process	SCM is being centralised. Vacant posts have been advertised for segregation of duties.	M.M./CFO/ HR & Admin Manager	Ongoing
EX.205	No files or documentation was provided for the procurement sample	All documents will be kept in a safe custody.	SCM/Intern	Ongoing
EX.14	Quarterly reports on performance information not provided for audit purposes	Performance Management	Strategic Manager/ Acting MM	Quarterly
EX.61	Age analysis does not agree to debtors ledger	Billing is now done monthly & reconciliations will be conducted	Revenue Accountant/Billing clerk	Monthly /
EX.63	Under provision for doubtful debts	Debtors have been critically assessed and a significant portion is	CFO/SFO/Revenue Accountant	End of year

		irrecoverable.		
EX.64	Non-compliance with credit control and debt collection policy	Still to write off debt and then implement	CFO/SFO/Revenue Accountant	After adjustment of budget
EX.65	Long outstanding debts not written off	Debts to be written off. Policy adopted by council	CFO/SFO/Revenue Accountant	After adjustment of budget
EX.202	Cut-off of debtors could not be performed	The municipality will only close the year end after it has everything has been done (i.e. in mid – July)	Revenue Accountant/SFO/ Billing clerk	30 June 2011
EX.67	Incorrect tariffs charged	Corrected	CFO/Revenue Accountant	Done
EX.69	Receipts recorded in incorrect period	Receipts will be recorded in a sequence on monthly bases	Billing clerk/Revenue Accountant	Monthly
EX.160	Elliotdale receipt books not provided for audit purposes	Receipt books will be kept & monitored in one place.	Revenue Accountant/Cashiers	Monthly
EX.75 & EX.210	VAT not separately indicated on rental receipts and not raised in the accounting. Differences in VAT	VAT will be done in house and be able to do reconciliation.	CFO/SFO	31 March 2011
EX.8	Explanations for differences in preliminary analytics not provided for audit purposes (Repeat)	Information will be provided.	Management	During Audit
EX.15	Information for preliminary analytics not provided for audit purposes	Information will be provided	Management	During Audit
EX.37	No documented process for identifying subsequent events	Management will develop a process to identify subsequent events.	M.M./ Management	01 July 2011
EX.91	Non compliance with the MFMA act with regards to the	Adherence to Supply Chain Management Policy provisions	Land and Housing Manager and	28 February 2011

	sale of immoveable property		CFO	
EX.192	Duplicate payments made to creditors	All payments will be scrutinised & invoices will be stamped paid	Creditors clerk/Expenditure Accountant	Daily
EX.2	Long outstanding items on bank reconciliation	Bank reconciliation will be inspected for long outstanding items	CFO/SFO	Monthly
EX.59 & 80	Petty Cash Register does not agree to the trial balance and financial statements	Petty cash will be reviewed periodically	SFO/Expenditure Accountant	Monthly
EX.39	No documented process for identifying contingent liabilities	Management will develop a detailed process	M.M./Management	31 March 2011
EX.90	No formal fixed asset management policy is maintained by the municipality	Asset Management Policy Development	CFO	February 2011
EX.11 & EX. 13	Insufficient management review of inventory (Repeat)	The municipality does not have stores, nevertheless available inventory will be counted at the end of the financial year	CFO	30 June 2011
EX.18	Fair value of the financial lease asset not available at inception of the lease	Information is available for older leases	CFO/SFO	28 February 2011
EX.206	Procurement: R 30 000 - R 200 000	SCM is being centralised and adherence to Supply Chain Management Policy is monitored	SCM	Monthly
EX.206	Procurement: R 30 000 - R 200 000	Adherence to Supply Chain Management Policy will be monitored	SCM	Monthly
EX.207	Procurement: R 2 000 - R 10 000	Adherence to Supply Chain Management Policy will be monitored	SCM	Monthly
EX.208	Procurement: R 10 000 - R 30 000	Adherence to Supply Chain Management Policy will be monitored	SCM	Monthly

EX.66	Tariffs not approved	Tariffs will be approved with the budget	Council	31 May 2011
EX.68	Deposits incorrectly accounted for	Corrected	SFO/expenditure Accountant	Daily
EX.70	Receipt books not utilised in sequence	Receipt books will be used in sequence	Cashiers/Revenue Accountant	Ongoing
EX.71	No manual reconciliation performed between rateable valuation as per valuation rolls and the rates and taxes raised in Venus	Reconciliation of the Valuation Roll and Venus will be done	Revenue Accountant/Budget & Treasury Officer/SFO	31 March 2011
EX.22	Financial policies not implemented by the municipality	Policy implementation will be monitored	CFO/SFO	March 2011
EX.191	Expenses not correctly accrued for	Expenses will be recorded in the correct period and accruals will be raised at the end of the year.	Expenditure Accountant/SFO	30 June 2011
EX.58	No policy on effective cash management	The policy is available	CFO/SFO	Done
EX.78	Unidentifiable direct deposits are not followed up on timeously	Unidentified direct deposits will be followed	SFO/Revenue Accountant	31 March 2011
EX.79	Specific bank accounts not maintained by the municipality	The municipality need to open capital replacement reserve account as required by GRAP	SFO	31 March 2011
EX.85	Authorised signatories for bank accounts not updated timeously	Municipal bank accounts signatories will be updated	CFO/SFO/MM	31 March 2011
EX.50	No off-site storage utilised by the municipality	This has been initiated with FNB	IT/SFO	31 March 2011
EX.90	No formal fixed asset management	Policy is still in draft	CFO/SFO	31 March 2011

	policy is maintained by the municipality			
EX.83	Fixed assets not adequately insured (Repeat)	Insurance policy of all assets will be reviewed	CFO/SFO/Asset clerk	31 May 2011
EX.116	Payments not made within 30 days of invoice	All payments will be made within 30 days on receipt of invoice.	Expenditure Accountant/Creditors clerk/SFO	Monthly
EX.117	No cheque attached to invoice	Cheques returned will be attached to the relevant voucher.	Creditors clerk/Expenditure Accountant	Monthly
EX.120	No order attached to invoice	Orders are always attached, except where there is an appointment letter.	Expenditure Accountant/SFO	31 March 2011
EX.185	Cheque amount does not agree to invoice	Vouchers are scrutinised to if there are any discrepancies	SFO/Expenditure Accountant	Daily
EX.186	Proof of delivery of goods not signed	Proof of delivery or memo must be attached to the payment voucher signed.	SCM/SFO/Expenditure Accountant	Daily
EX.187	No invoice attached	Vouchers are scrutinised to verify all the required information for authenticity.	Creditors clerk/Expenditure Accountant/SFO	Daily
EX.189	Successful quotation not attached	Vouchers are scrutinised to verify all the required information for authenticity before payment is made.	SCM/Creditors clerk/Expenditure Accountant	Daily
EX.194	Expenditure incorrectly classified	Requisitions need to be checked if the expenditure is properly classified before making an order.	Budget & treasury Officer/Expenditure/SFO	Daily

EX.204	SCM compliance with regards to competitive bidding not ensured	Bid committees need to adhere to SCM policy & regulations & detailed explanation should be given.	Bid Committees/SCM	Monthly
EX.155	Reason for deviation not documented	Deviations should be signed by municipal manager & be reported monthly	SCM	Monthly
EX.46	Policy for indigent debtors not implemented (Repeat)	Roll out of free basic services or alternate energy to indigent households	CFO	30 April 2011

HUMAN RESOURCES AND ADMIN DEPARTMENT

ACTION PLAN TO ADDRESS AUDIT QUERIES FOR 10/11 FINANCIAL YEAR				
Exception Ref	Finding	Management Action	Responsible Person	Timeframe
9. EX.35	No review of final salary payment made to terminating employee Audit finding	Need clarity, as all relevant Managers sign	Ms G. Sityata and Mr S. Gada	As soon as possible
10. EX.73	No policy for the payment of allowances Audit finding	Develop policies on employee allowances	Mr Gada	March 2011
11. EX.96	Salary not in accordance with approved salary range	Post were advertised in one financial year and filled in another year	Mr. Gada	March 2011
12. EX.98	Payroll information not provided for audit purposes	HR Manager should ensure that information requested supplied timeously	Ms Booi	When a need arises
13. EX.104	Duplicate payment to third party	Monitoring of all deductions made on a monthly basis	Ms Booi	Monthly

14. EX.105	No supporting documentation attached with cheque payment	To ensure that all schedules are attached to payment voucher	Ms Booï	Monthly
15. EX.107	No evidence of monthly third party payments	To ensure that all schedule are attached to payment vouchers	Ms Booï	Monthly
16. EX.110	Incorrect SDL payment made to SARS	Noted	Ms Sityata	Monthly
17. EX.111	No evidence of monthly SDL payments	To ensure that all schedule are attached to payment vouchers	Ms Sityata	Monthly
18. EX.165	Differences in overtime payments noted	Monitoring of all inputs received for each month	Ms Booï	Monthly
19. EX.181	Allowances not supported by documentation	To make copies to all personnel files	Ms Sityata	February 2011
20. EX.182	Annual salaries not line with salary scale	To attached letters to all employees whose salary scale have exceeded SALGBC notches	Ms Sityata/Ms Hanise	February 2011
50. EX.175	PAYE documentation not provided for audit purposes		Ms Booï	When a need arises
51. EX.177	No UIF contributions made by councillors	To be implemented as soon as Council adopts it	Mr Gada	As soon as a Council resolution is taken and communicated
52. EX.178	Incorrect PAYE deductions made	To consult PayDay service provider	Ms Booï	February 2011
53. EX.179	UIF deduction calculated incorrectly	Already corrected in the following month after an error was picked	Ms Booï	N/A
54. EX.180	IRP5 income does not agree to employees' total earnings	Noted	Ms Booï	February 2011
55. EX.184	PAYE as per system does not agree to	Noted	Ms Booï	February 2011

	PAYE as per IRP5			
78. EX.74	No schedule of overtime prepared by each department	Individual overtime forms prepared and approved, are submitted for processing	All HODs	Monthly
79. EX.99	No overtime policy in place	To be developed	Mr Gada	March 2011
80. EX.100	No overtime reconciliation performed Audit finding Section 62(1)(b)	Noted	Ms Booi	Monthly
81. EX.101	- Payroll reconciliations not timeously performed	Noted	Ms Booi	Monthly
82. EX.109	SDL payment not made timeously	Already rectified (This is not the action plan to address the finding)	Ms Booi	Monthly
82. EX.112	-Overtime payments greater than 30% of monthly salary	Corrected	All HODs	December 2010
83. EX.113	- No review of monthly overtime exception reports	Noted	Ms Booi	Monthly
84. EX.162	Employees working more than 10 overtime hours in a week	Already addressed (Only a maximum of 40hrs worked is paid as per BCEA	All HODs	Monthly
85. EX.163	Employee working more than 12 hours a day	Already addressed (Only a maximum of 40hrs worked is paid as per BCEA	All HODs	Monthly
86. EX.168	Minimum leave not taken by employees	Already communicated	All HODs and Supervisors	Monthly
87. EX.172	Leave requests approved before request date	Already attended	All HODs and Supervisors	As soon as leave forms are submitted to the HR/Admin. office
88. EX.174	Accumulated leave exceeding 48 days	Continuous communication with effected employees is done	Ms Hanise	December each year
116. EX.180	IRP5 income does not agree to	Noted	Ms Booi	Febraury 2011

	employees' total earnings			
117. EX.200	IRP5's not issued within the prescribed time frame	Noted	Ms Booï	February 2011
118. EX.201	IRP5 reconciliation procedure not performed by municipality	Noted	Ms Booï	February 2011
120. EX.23	High number of vacant posts	Already addressed	Affected HODs/ Municipal Manager	When a need arises
122. EX.38	Department heads do not prepare reports of subsequent events			
123. EX.128	No municipal code is kept by the municipality			
124. EX.129	Appointment of managers		Municipal Manager	
125. EX.130	Managers' information not accurately maintained			
133. EX.34	No notice period served by terminating employee	Employees are always encouraged to serve notice period	Ms Hanise	When a need arises
134. EX.48	Debt/benefit forms not completed upon termination	Need clarity	Ms Hanise	Ongoing
135. EX.49	Verification of qualifications not properly performed	Data check was done and report submitted to the HR/Admin. Manager. To follow SCM processes to identify service provider	Ms Hanise	Ongoing
137. EX.51	Post applications not received according to approved policy	To review existing policy as all mail including applications, is received through Registry which is	Ms Hanise	March 2011

		centralised.		
139. EX.53	No leave requests completed for shutdown period	Communicated	Mr Gada	December 2010
140. EX.54	No communication with employee at termination of probation period	Communicated to affected HODs	Ms Hanise/ Mr Gada/All HODs	November 2010
141. EX.94	No request to fill vacant post completed	Covered by a Council Resolution. For Ms N. Sigonyela it was misplaced	Ms Hanise	March 2010
142. EX.95	No CV included within employee file	Inform all affected employees to submit their CVs	Ms Hanise	February 2011
143. EX.97	No short listing of candidates to fill vacant positions	Since they were absorbed, no selection processes were done.	Ms Hanise	N/A
144. EX.102	No supporting documentation for increases in allowances	Circular for Section 56/7 employees' allowances be included in personal file	Mr Gada	February 2011
145. EX.103	No appointment letter within employee file	Ms Mini's file was never returned by the time AG conducted audit in 2008/9 financial year.	Ms Hanise	N/A
146. EX.161	No overtime forms within employee files for overtime received	Overtime forms are filled	Ms Booi	July 2010
148. EX.164	Overtime request form completed only after work is performed		All HODs and Supervisors	
149. EX.166	Temporary employees leave details not recorded on system		Ms Hanise	
150. EX.167	No communication with employees regarding unutilised	Communication was made to all affected employees	Ms Hanise	July 2010

	annual leave days			
151. EX.169	Leave requests not included within leave register	Leave for every department are recorded in a leave register	HR/Admin. Departmental Secretary	Monthly
152. EX.170	Leave on system not supported by leave request forms	Noted	Ms Hanise	As soon as possible
153. EX.171	Leave requests approved only after leave date	Need further explanation	All	
154. EX.173	No sick leave request forms completed	Already attended	Ms Hanise	June 2010
155. EX.174	Accumulated leave exceeding 48 days HR	Already attended and communicated	Ms Hanise	July 2010
156. EX.183	- No employment contracts within employee and councillor files HR	-Affirmation copies serves a contract (Councilors) -		
157. EX.211	- Employees and councillors unable to be physically verified HR			
179. EX.156	- The municipality does not review the template/reports to ensure that all reporting requirements are met			

LAND AND HOUSING DEPARTMENT

ACTION PLAN TO ADDRESS AUDIT QUERIES FOR 10/11 FINANCIAL YEAR(Land and Housing)

Exception Ref	Finding	Management Action	Responsible Person	Timeframe
113. EX.72 -	Supplementary valuation roll reflecting amendments to general valuation roll not maintained	Supplementary Valuations – Done, awaiting objections from property owners.	Land and Housing Manager	24 January 2011
114. EX.108	Details of lease agreement unable to be verified	Lease Register and Management – awaiting land audit information.	Land and Housing Manager and CFO	?? March 2011
67. EX.91	Non compliance with the MFMA act with regards to the sale of immoveable property	Adherence to Supply Chain Management Policy provisions – further engagements with the CFO required.	Land and Housing Manager and CFO	?? February 2011

LED AND STRATEGIC DEPARTMENT

ACTION PLAN TO ADDRESS AUDIT QUERIES FOR 10/11 FINANCIAL YEAR

Exception Ref	Finding	Management Action	Responsible Person	Timeframe
39. EX.14	Quarterly reports on performance information not provided for audit purposes	To do quarterly reports and keep the information for audit purposes	MM	30 June 2011
69. EX.123	Performance report not reviewed	Quarterly reviews have to be done based on the approved SDBIP and the availability of performance audit comm. Will assist.	MM	30 June 2011
96. EX.118	No proof of delivery attached to invoice	To ensure the submission of delivery note of the goods or services provided	LED Manager	Daily
101. EX.32	Performance reviews not provided for audit purposes	To do quarterly reviews in order to be able to submit them for auditing	MM	QUARTERLY
102. EX.149	The objectives in the IDP do not have key performance indicators recorded in the IDP	To provide key performance indicators in the same chapter of objectives and strategies	Strategic Manager	30 June 2011
103. EX.157	Key performance indicators are not well defined	To clearly defined the key performance indicators in IDP review	Strategic manager	30 June 2011
172. EX.148	The IDP was not submitted to the MEC for local government in the province within 10 days of the adoption	To receive the confirmation of submitting the IDP document to the MEC	Strategic Manager	30 June 2011

173. EX.150	The objectives in the IDP do not have key performance indicators and targets recorded in the IDP	To provide key performance indicators in the same chapter of objectives and strategies during the IDP review.	Strategic Manager	30 June 2011
175. EX. 152	The SDBIP was not approved within 28 days after the approval of the budget	To prepare and approve the SDBIP within 28 working days	MM	30 June 2011
177. EX.154	The Performance report does not compare current year performance to prior year performance	The performance will be done and compared to prior year performance	MM	30 June 2011

ANNEXURE 3: REPORT OF THE AUDIT COMMITTEE



REPORT OF THE AUDIT COMMITTEE OF MBASHE LOCAL MUNICIPALITY FOR THE YEAR ENDED 31 JULY 2010

1 REPORT OF THE AUDIT COMMITTEE

Honourable Speaker, Mayor, and the Councillors at large, the Audit Committee (AC) takes the liberty of thanking you for this opportunity to present the Audit Committee Report for the period December 2009 to November 2010. The Audit Committee of Mbhashe Local Municipality was established 14 January 2009, with its first meeting taking place on the 11 February 2009.

2 AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The AC has three independent members appointed by Council on the 10 December 2008, namely:

- ☐ Dr Winston Platjes (Chairperson)
- ☐ Adv. Albert Max Bluhm
- ☐ Mr. Sizwe Matthew Mbewu

Other invited members (in no particular order) by the Audit Committee during the period under review include:

Department of Local Government	<input type="checkbox"/> Mr. Nkosinathi Gxasheka <input type="checkbox"/> Ms B Mdoda <input type="checkbox"/> Mr. Xolani Ntinkinca
Auditor-General Office	Mr. Hitesh Kika
The Office of the Mayor may be present at Audit Committee meetings as an invitee only. However, the Mayor has a standing invitation from the Audit Committee.	<input type="checkbox"/> Ms F. Mvana <input type="checkbox"/> Ms P. Dyantyi <input type="checkbox"/> Ms N.O. Mfecane <input type="checkbox"/> Ms N. Nyalambisa (Speaker)
Mbhashe: Office of the Municipal Manager	Mr. Sabelo Dumezweni (Acting MM)

Mbhashe: Finance	<ul style="list-style-type: none"> ☐ Ms Sindiswa Mini (CFO) ☐ Mr. S Ndakisa (Senior Finance Officer and Chairperson of the Risk Committee)
Mbhashe: Human Resource and Administration	<ul style="list-style-type: none"> ☐ Mr. Siphetho Gada (Manager) ☐ Mrs. N Hanise
Mbhashe: Secretariat	Ms Nosiphiwo Mgweba
Mbhashe: Internal audit Unit	Mr. Sisa Baliso (Internal auditor)
Mbhashe: IDP and LED	Mr. Mqingwana (Manager)
Mbhashe: Technical Services	Mr. Molakalaka (Manager)
Mbhashe: Community Services	Mr. Bhongo (Acting Manager)
KPMG – Service Provider	Mr. Warren Els and Mr Gary Simms
Mbhashe: Legal & Compliance Officer	Mr. Mkata (one meeting and had since resigned from the LM)

As per Audit Committee Charter, the Chairperson of the Audit Committee is elected annually amongst the independent members. At the meeting 2 February 2010 it was agreed that Dr Plaatjes be re-elected as Chairperson of the AC.

In terms of Section 166 (4) (b) of MFMA, the Audit Committee must meet as often as required to perform its functions, but at least four (4) times a year.

In so far as the last twelve months is concerned, that is December 2009 to November 2010, the Audit Committee managed to hold six effective functional Audit Committee meetings:

- ☐ 02 December 2009
- ☐ 09 February 2010
- ☐ 07 April 2010
- ☐ 22 June 2010
- ☐ 11 August 2010
- ☐ 13 October 2010

3 AUDIT COMMITTEE RESPONSIBILITY

Section 165(1) of the Municipal Financial Management Act (MFMA) 56 of 2003 states that each municipality must have an internal audit function.

Further, Section 166(1) of the MFMA states that each municipality must have an audit committee. Section 166(6) also allows for a single audit committee to be established for more than one local municipality.

The Audit Committee is an independent advisory body that carries its functions in terms of Section 66 of the Municipal Financial Management Act (MFMA) 56 of 2003 and King II Report on Corporate Governance.

In terms of the Auditor-General South Africa, the audit committee should be effective throughout the year and meet on a predetermined regular basis.

As a minimum, the Auditor-General (AG) South Africa recommends that the Audit Committee should:

- ☐ Monitor the performance of the municipality against its strategic plan, as far as it relates to audit;
- ☐ Evaluate and make recommendations to management with regards to internal controls, risk management and compliance with legislation relating to preparation of the financial statements;
- ☐ Interact with the external audit and act as a liaison between management and internal and external audit where unresolved differences arise;
- ☐ Review the draft and final annual financial statements;
- ☐ Review the annual report, audit report and audited annual financial statements;
- ☐ Provide direction to internal audit; and,
- ☐ Review the activities of internal audit.

The Committee is pleased to declare that it has approved the Mbhashe Local Municipality Audit Committee Charter which regulates the activities and the terms of reference in August 2009. However, it still awaits final approval from Council, despite numerous requests to Administration, and it was identified as an audit query in AG report (2009/2010).

The Audit Committee in 2009, in line with what transpired at the risk assessment workshop and the Auditor General's report, previously suggested that Administration and the Council consider the implementation of the documentation provided to Administration in order to create an alternative audit trail as required by auditing practice and which it was hoped would create a transparent and organised Administration easily overseen by the Executive Committee and Council and which would be a well efficient and effective institution.

At this point it should also be noted that political instability within Council also impeded operational matters.

The following documents and/or policies were made available by the AC for the above purpose namely:

- ☐ List containing the various requirements (compliance regulations) that prescribes what Human Resources, Administration and Committee sections should have. Feedback that was received seemed contrary to what AC anticipated and internal audit was tasked to audit the feedback; however due to the limited capacity within internal audit the task remains incomplete, and Human Resources, Administration and Committee sections has yet again been the scope of an

audit query by the Auditor General.

- ☐ Proposed agreements for the Municipal Manager and Section 57 Managers service agreements. Nothing has been forthcoming since 2009 and it is hoped that the newly appointed Performance Audit Committee would be able to achieve success.
- ☐ Proposed agreements for the Municipal Manager and Section 57 Managers performance agreements. Here again, nothing has been forthcoming since 2009 and it is hoped that the newly appointed Performance Audit Committee would be able to achieve success. The AC believes that due to the absence of performance agreements management abdicates responsibility.
- Proposal of what should be contained in the municipal annual report of which the IDP should be part of (to save costs) as these two documents is very closely related to each other. This was again a contentious issue in the AC in 2010, and it is optimistic that the newly appointed oversight committee will be able to rectify the situation.
- ☐ Proposal for Monthly Departmental reports (reporting template) to the Executive Committee, Council, and the Audit Committee. The Audit Committee, since inception is yet to have any departmental report tabled before the committee. Without departmental reports, it limits the scope the Audit Committee as it unable to comprehend past, present and anticipated future implementations.
- ☐ Proposal of what file/documents/registers should be available in the Internal Auditors office. Again, due to the limitation of capacity within the internal audit unit this has approved a challenge during the year under review
- ☐ Correspondence file plan that must be approved by Provincial archives to enable Council to have an approved correspondence system. This has apparently been achieved, however the audit committee has yet to satisfy itself.
- ☐ Proposal for the writing of reports to Committee's and Council and a guideline how to write the reports and what it should contain. The Audit Committee's comments remain the same as bullet's files comments regarding departmental reports.
- ☐ Various pro-forma forms for consideration for use in the municipality to standardise the use of forms. Nothing has been forthcoming to date.
- ☐ Proposal of what the Municipal Managers job description should be. Again, nothing has been forthcoming to date.

- ☐ Proposal of an incidents/accidents risk policy to investigate and decide on all incidents/accidents that occurs in the municipality and which creates a risk for the Council. Minor headway has been made in this respect but nothing substantial to alleviate the associated risks.

The above mentioned articulations is meant to serve as tools to enable Council to move closer to a clean Audit report, to be easily monitored by both the Audit Committee and the Executive Committee and that the existence of the documents/registers will allow the Auditor General to perform an alternative audit to verify any finding or result.

4 THE EFFECTIVENESS OF INTERNAL CONTROL

The system of internal control was not entirely effective for the period under review. During the year under review, several deficiencies in the system of internal control were reported by the internal auditors and the Auditor-General South Africa. In certain instances, the matters reported previously have not been completely and satisfactorily addressed.

Some of the areas of concern include:

- ☐ Significant difficulties with comparative figures;
- ☐ The availability of supporting documentation;
- ☐ The adequacy of controls implemented;
- ☐ A lack of liaisons between the finance department and especially human resources;
- ☐ Training and skill levels of officials; and,
- ☐ General staff motivation.

With the assistance of KPMG (service provider) much improvement has been seen in the following areas:

- ☐ Reconciliations in general, and cash management;
- ☐ The transfer of the above mentioned skills, yet an oversight role is still required;
- ☐ An improvement to use the financial (Venus) system; however, a lot more is required; and,
- ☐ Limited review procedures.

The Municipality is negatively affected by the above contributing towards the Auditor- General's disclaimer of opinion in prior years. The impact however is not isolated to the audit opinion.

The impact can be felt in other areas such as:

- ☐ Poor quality financial information leading to inappropriate decision-making;
- ☐ Not achieving/monitoring service delivery objectives; and,
- ☐ Poor quality reporting.

The above ineffective control environment is also vulnerable to exploitation and abuse.

A number of policies have been approved by Council recently; the audit committee noted these policies only, as there was not enough time given to the Audit Committee to comment on these policies. It is the opinion of the Audit Committee that these policies should be reviewed as soon as possible. Of particular concern is the subsistence and travel policy which in the opinion of the Audit Committee is open to abuse and should be reviewed as a matter of urgency. This policy in particular, is also the cause of much of the irregular expenditure as highlighted by the Auditor General.

5 INTERNAL AUDIT

The Internal Auditor was also appointed in May 2009 and he started functioning in the 2009/10 financial year.

As a minimum, the Auditor-General South Africa recommends the internal audit unit should:

- ☐ Prepare a risk-based audit plan and internal audit programme for each financial year.
This programme would ordinarily include the nature, timing and extent of internal audits to be performed during the financial year, and address significant risk areas sufficiently;
- ☐ Advise the accounting officer and report to the Audit Committee on the implementation of the internal audit plan, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control, compliance with legislation;
- ☐ Developed and documented written policies to guide financial accounting processes for each of the main audit cycles; and,
- ☐ Implement, formalised and documented internal control processes for all audit cycles.

In 2009 the internal audit unit conducted a risk assessment profile of the municipality. The Risk Committee to address the issues identified still remains a challenge.

The Risk Committee was established on 14 January 2010, under the auspices of the Audit Committee. This was later renamed to the Risk and Fraud Committee. The general

purpose of the Risk and Fraud Committee is to deal with effective internal control measures. However, due to disagreements and possible conflicts with management regarding the terms of reference of Risk and Fraud Committee has been ineffective during the period under review. The Audit Committee has since June 2010 been advocating that a two-day workshop held to finalise the terms of reference of this Risk and Fraud Committee. No date has yet been set for this workshop.

Preferably, EXCO should form part of this workshop.

The internal audit unit remains understaffed and only recently acquired the minimal of resources to keep it afloat.

The Internal Audit Charter, Internal Audit Framework, and Internal Audit Methodology and Structure documents were prepared by the internal audit unit and approved by the Audit Committee. The internal three-year internal audit plan and the one-year operational plan has also been approved in principle by the Audit Committee, but it awaits input from all stakeholders.

A Compliance Officer was recruited during the year under review, but this individual has since resigned and the position remains vacant. Again Audit Committee recommends that a new compliance officer be recruited.

The Audit Committee must applaud Mr. S. Baliso, of internal audit for the tireless and sterling work he has done. In the same breath it should be noted that more resources were promised but nothing was delivered during the course of the year. These are indeed impeding factors to the internal audit unit.

6 ACTIVITIES OF THE AUDIT COMMITTEE

6.1 ACTION PLAN TO RESPOND AUDITOR GENERAL'S AUDIT REPORT 2008/2009

An action plan to respond to the Auditor General's audit report was put in place. Departments had to take ownership of its audit queries and have individuals within each department take responsibility to address these. The action plan had to address time frames when backlogs would be completed, as well as on-going monitoring. The internal audit unit was tasked to perform a random audit on at 30 least items for each Audit Committee meeting.

Due to these actions the number of repeated auditor general queries was reduced to virtually nil.

6.2 MANAGEMENT ASSESSMENT REPORTS (QUARTERLY REPORTS)

The Audit Committee noted that departmental quarterly reports were not tabled. This must be circulated at least three weeks before a scheduled meeting. The Audit Committee approved the use of a standardised Quarterly Report template in June 2009, for the following reasons:

- ☐ It actively seeks to pro-actively evaluate performance, which are directly linked KPA's, which emanates from the IDP;
- ☐ Inhibitors to performance are timeously identified and the Audit Committee can make recommendations in terms of how these challenges can be rectified;
- ☐ Important issues such as staffing, resources (including over and under budgeting), and due/completion dates are addressed; and
- ☐ Section Heads can estimate their own overall performance. Uptake on the

new reporting format is however non-existent to date.

6.3 ORGANISATIONAL FRAMEWORK AND DELEGATION DOCUMENT

The Audit Committee was forced to step outside the parameters of its charter and terms of reference in order to avoid a major audit query by having a two-day workshop held in May 2010 to the then EXCO regarding the organisational framework and the delegation of authority.

After this workshop the Audit Committee presented EXCO with a completed organisational framework and delegation document. However, the Audit Committee is uncertain whether these were approved by Council.

Council requires that the delegation document be workshop. To date no feedback has been received whether Council would prefer a workshop to finalise the delegation document. Despite every effort by the Audit Committee to assist the Municipality, to date, there is very little evidence of co-operation (excluding the CFO who has from the beginning worked well with the Committee) from the effected Departments.

6.4 CHALLENGES FACING THE AUDIT COMMITTEE (AC)

- ☐ Possible non-compliance with the Audit Committee recommendations; management (although facing many challenges this year 2009/2010) will sometimes not comply with the request and recommendation of the Audit Committee, amongst others:

- o The Audit Committee requested draft reports on management plans prepared by finance, and other sections in order for the AC to make comments on these documents, but the only report received was from finance section;
 - o Uptake on the new quarterly reporting format;
 - o Final budgets, and adjustments budget being tabled before the Audit Committee before it is approved by Council;
 - o Copies of service agreement and performance agreements of section 56 Managers, which include job descriptions are non-existent;
 - o The human resources compliance list (dealing with questions and possible challenges facing the section), not being addressed appropriately;
 - o The need for competent minute taking services from the secretarial unit; which includes the setting of agendas and the distribution of minutes timeously; and
 - o The Audit Committee wanted to meet with new Executive Management Committee to introduce themselves, and explain what their role and functions are, and to discuss challenges facing the Committee; However due to challenges of a political nature this never materialised.
 - o Cell phones to councillors: there is no clear agreement between the municipality and the councillor(s) should he/she decide to leave the municipality; therefore the responsibility remains with the municipality with regards to the liability.
 - o Transfer stations for the disposal of waste: this matter remains an unresolved issue, and it could have severe budget implications.
 - o The Audit Committee provided the municipality with an evaluation instrument the Audit Committee awaits input from all stakeholders regarding this instrument as the Audit Committee has not been evaluated since inception.
- 2 Internal Audit Unit resource limitations remain a major concern in order to achieve a clean audit, despite numerous requests nothing has been forthcoming.
- 2 The appointment of the Municipal Manager as a strategic leader remains of immense concern to Audit Committee, and is crucial to the improvement of the audit report.

7 CONCLUSION

The Municipality is already in the sixth month of the 2010/11 financial period and, as a matter of urgency, requires hands-on assistance to take corrective action to address the shortcomings identified before it is too late to effectively show an improvement.

The Audit Committee congratulates the Finance Department for their efforts, although the audit report is still a disclaimer, as much more documentation was made available for the year under review and if the rate of improvement continues, especially in the areas of

administration and filing systems as previously suggested, the audit report will improve substantially.

We would like to thank the Council, the various Acting Municipal Managers, the Chief Financial Officer, the internal audit unit, the representative from the Department of Local Government, the office of the Auditor-General South Africa for the support they have provided during the period under review.

8. WAY FORWARD

The municipality developed the performance management system framework, which guides the performance evaluation and reporting process. Also, much effort has been forthcoming by way of policy development; however implementation and monitoring of these remain crucial. Much is expected of the newly formed Performance Audit Committee and Oversight Committee that the municipality has established. The proactive appointment of a Council coordinator is also commended.



Audit Committee Chairperson

3 December 2010
Date

ANNEXURE 4: STAFF ESTABLISHMENT