

**LETSEMENG LOCAL MUNICIPALITY  
2013/14 DRAFT ANNUAL REPORT**

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**DRAFT ANNUAL REPORT 2013/2014**

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## CHAPTER 1

### OVERVIEW OF THE STATE OF THE MUNICIPALITY



#### A. FOREWORD: MAYOR: CLLR. TI REACHABLE

I am delighted to present the Letsemeng Local Municipality's Annual Report for the 2013/2014 financial year. This report outlines our achievements and challenges for the past financial year, reflecting our vision and plans for the communities' future. The presentation of this Annual Report allows the Municipality to communicate with its stakeholders, both internal and external ones.

#### **Vision**

*“Maximised quality service to local communities”*

- To be a prosperous municipality that creates an enabling environment for shared economic growth and development,
- To achieve effective and equitable service delivery,
- To serve the community of Letsemeng as a well-governed and effectively run administration.

To achieve this vision, Letsemeng strives at all times to:

- Contribute actively to the development of the towns environmental, human and social capital;
- Offer high-quality services to all who live in, or do business in Letsemeng and
- Be known for its efficient, effective and caring staff.

#### **Mission**

“To provide the best resource management capability at our disposal”

#### **Values**

- ❖ Commitment
- ❖ Innovativeness
- ❖ Creativity
- ❖ Integrity

Our community expects us to be willing and committed to address those problems that do not appear to have readily available solutions and see them as opportunities. In so doing, Letsemeng has committed itself to the principles of innovation and dynamic leadership – both of which, we believe, are essential qualities that will help take us forward into the future.

We conduct our affairs with the ultimate objective of becoming one of the most developmental municipalities in the country and we have adopted a motto saying “We Sparkle in Pursuit of Service Excellence” and we intend to do exactly that; in terms of executing our mandate and key performance

areas of our municipality. Thus my office participates or spearheads our Annual Strategic Meetings. This is where we, among other things, relook and evaluate our past performance in terms of the targets set in the previous year(s), revise, realign and adopt new strategies so as to achieve our desired goals. These targets are set and we aim to achieve them despite the number of challenges that we face at Letsemeng Local Municipality. These range from Human Capital (recruiting the right qualified staff) to Financial Capital (getting adequate funding from provincial and national government) to address key historical and non-historical challenges such as housing backlogs, providing clean tap water to all our communities.

Thus, the municipality guarantees a firm commitment towards good governance, accountability and efforts to extend to our people the benefits accruing from the resources of this municipality.

### **Key Policy Developments**

Despite the challenges alluded above our commitment remains that of enhancing stronger, better managed and accountable developmental local municipality, one that is better placed to meet the ever emerging demands and new challenges of different communities.

We have gone further and aligned ourselves to the development and establishment of:

- The Anti – Corruption Strategy – our plight and commitment towards rooting out corruption in Government;
- Achievement of Operation Clean Audit;
- 5 Year Local Government Strategic Agenda;
- Municipal Turn Around Strategy;
- Memorandum of Agreements; and
- Public Private Partnerships;

Measures to enhance the foregoing are being pursued and implemented on a regular basis.

As Letsemeng Municipality we are committed towards the effective implementation and execution of the abovementioned strategies and service level agreements in accordance with national guidelines.

### **Key Service Delivery Improvements**

Our focus for the coming financial year is to accelerate the delivery of services within the confines of prudent financial controls. We are still committed to improve the audit opinion in trying to work towards achieving a clean audit. We believe this is achievable, with proper planning and commitment in trying to improve effectiveness of Corporate Governance and implementing Back to Basics approach.

Despite the enormous progress achieved over the years we are aware that our people are still faced with many challenges that still require our attention. Unemployment, poverty, crime, the burden of diseases and access to basic services, especially for rural communities, remain some of the major challenges. We have managed to ensure that at least 95% of our community has access to portable water.

A number of key projects were undertaken during the current year. These are at different stages of completion as the projects differ in size and nature. Once all of these projects are completed, it would be a giant step in Service Delivery and ensuring that we are complying with the various legislations governing our operations. The following are some of the major projects:

- Multi-Purpose Community Centre; Dithlake
- Paving of access road in Jacobsdal / Ratanang;

- Compilation of the General Valuation Rolls;
- The review, implementation and monitoring of Performance Management System.

As mentioned in the prior year, the Municipality's target was to provide proper sanitation facilities to all communities by 2011. The objective of the Municipality is to facilitate provision of adequate and affordable housing structures to the communities in its area of jurisdiction. The Municipality in Partnership with the Provincial Department of Human Settlement have allocated 130 houses in Koffiefontein, 70 houses in Petrusburg and 100 houses to Luckhoff. The project is on-going as the demand for housing remains a big challenge but we remain committed to provide shelter to the communities we serve.

### **Public Participation**

Public Participation is an institutionalised function in our Municipality. Since the inception of Ward Committees, public participation has become second nature to our Municipality. Our communities have learned to appreciate the elaborative process which ensures that all interested residents are afforded an ample opportunity to make meaningful contributions to policy development and planning for developments in the municipal jurisdiction. It is important to inform the public of our mandate and how we fulfilled it during the financial year.

These are some of the objectives we would have liked to achieve:

- Functionality of Ward Committees;
- Broader public participation plans and policies;
- Public communication systems;
- Complaints management system;
- Feedback to communities.
- Service Delivery Satisfaction Survey for 13/14 Financial Year.
- Proper documentation of Public Participation meeting held during the 13/14 Financial Year.

To our communities, thank you for cooperation during our public participation processes. Indeed working together we can do and achieve more, let us join hands together and advance our developmental agenda.

### **Expanded Public Works Programme (EPWP)**

In line with the National Government objectives of creating jobs and giving our people skills, we will continue to implement the Expanded Public Works Programme, commonly referred to as the EPWP. I am glad to report that this programme has been so successful.

### **Future Actions**

Our commitment will always remain that of enhancing stronger, better managed and accountable developmental local municipality, one that is better placed to meet the ever emerging demands and new challenges of different communities.

We will facilitate adequate and constant maintenance of access roads and to ensure regular maintenance of all internal roads.

We will also continue to work with the appointed Land Surveyor to identify vacant land to be surveyed and utilised for future use. To date about 240 residential sites have been identified in Diamanthoogte. Submissions have been submitted to COGTA to register the identified 240 sites and to also assist with the provision of basic services on those sites.

The process of ensuring that Grade 12 learners apply for bursaries from the different Sector Departments in order to promote further educational training and tertiary education which will contribute positively to the community of Letsemeng Municipality.

What could you expect from us over the next five years?

- An in depth diagnosis of our IDP document;
- Redesigning and redeveloping our IDP to close the gaps as identified in the diagnosis;
- Effective implementation of our IDP document as the most strategic document of the municipality;
- A detailed, deep and rigorous analysis of the status quo of the municipality with respect to the internal and external environment needs;
- Using the KPAs, while organised as they are to facilitate ease of all our planning and performance;
- Spatial Analysis and Rationale (to serve as a sixth focal area);
- Basic Service Delivery;
- Local Economic Development;
- Municipal Transformation and Organisational Development;
- Municipal Financial Viability and Management;
- Good Governance and Public Participation.

As the political head of this institution I would like to give the Council of Letsemeng, the current Accounting Officer and his administration applause for a stunning job they have done; it is indeed a job well done.

Thank you

.....

Cllr. Thandiwe I. Reachable  
**Mayor / Speaker**



## **B. MUNICIPAL MANAGER'S FOREWORD**

### **1.1 Municipal Overview**

#### **1.1.1 Demographic overview**

Letsemeng Local Municipality is situated in the South Western part of Free State Province and forms part of the Xhariep District Municipality, a rather agricultural rich area with natural economic resources. The local municipality area measures 10 192 square kilometres in extend and comprises of the former TLCs of Koffiefontein (which is now the municipal head office), Petrusburg, Jacobsdal, Oppermansgronde and Luckhoff.

It borders the Northern (through Jacobsdal) and Western Cape Provinces and is renowned for diamond, salt and slate mining as well as irrigation farming along the Orange Riet Canal and Van der Kloof Dam.

The N8 route transgresses the area to the North West and links Kimberley and Bloemfontein via Petrusburg.

The five towns are connected with tarred road infrastructure via Koffiefontein. The R705 links Jacobsdal with Koffiefontein while the R48 links Petrusburg, Koffiefontein and Luckhoff in a north-south direction. The R704 links Koffiefontein, Fauresmith and Jagersfontein with one another.

The municipal area also accommodates Oppermansgronde, just west of Koffiefontein, which is part of a land restitution project. Several pans occur in the area while the Van der Kloof dam, Kalkfontein Dam and Wuras Resort are some of the more prominent water sources available in the area. Both the Riet River and Orange River drains through the area in a westerly direction. Although there are ample water sources available in the area, access to potable water in some of the towns remains problematic.

The northern parts of the municipal area surrounding Petrusburg are good cultivated agricultural land while the southern area is renowned for livestock farming.

#### **1.1.2 Population size and growth**

Based on the census conducted in 2011, Letsemeng population was estimated at 38 628 (42 982 during 2001) residents which is dominant by a total of **19 852** male against the **18 777** female in the area. This represents a significant decrease from the previous census of 2000/2001, as the population decreased with approximately 4 354. It should, however, be noted that these patterns are difficult to measure, keep track and get the exact reasons for the trends as population migration tends to be informal, no proper coordination or monitoring measures are in place. As is inherent even in the official censuses challenges, reasons for such migrations tend to be assumptions rather than facts. The level of unemployment stands at **22.8%** which is dominated a percentage of **31%** unemployed female against **16.5%** male; this compels the municipality at this point in time to pay special attention to gender equality in the formal employment sector and women economic empowerment in the enterprise development sector. There is also a high level of unemployment



amongst the youth which poses another challenge to the municipality and all Sector Departments to pay special attention to the youth in terms of both employment and economic empowerment.

### Population in groups

Group	Percentage
African	67,8%
Coloured	23,4%
Indian/Asian	0,3%
White	8,1%
Other	0,4%

### Age and gender profile of Letsemeng

Age	Males	Females
0-4	5,4%	5,5%
5-9	4,9%	4,7%
10-14	4,8%	4,5%
15-19	4,7%	4,6%
20-24	5,1%	4,3%
25-29	4,9%	3,6%
30-34	4,4%	3,4%
35-39	3,6%	3,3%
40-44	3%	3,1%
45-49	2,7%	2,7%
50-54	2,4%	2,4%
55-59	1,7%	2%
60-64	1,5%	1,5%
65-69	0,9%	1%
70-74	0,6%	0,9%
75-79	0,4%	0,6%
80-84	0,2%	0,3%
85+	0,2%	0,3%

### 1.1.3 Challenges facing the municipality

The key challenges facing the municipality relatively remain the same every year. These are as follows:

- Attracting economic investment opportunities to improve the economy of the municipal area;
- Capacity building of staff to execute their tasks effectively in attempting to render efficient government services to the people as per the electoral mandate;
- Creating adequate job opportunities in attempting to alleviate poverty;
- Up-liftment of economic development of individuals, through SMME and BEE development;

- Provide alternative means of support to rural/informal population in order to decrease dependencies on the grants
- Improvement of the road networks (internal and external roads);

Council, management and staff strongly believe that challenges can be effectively addressed only if we maintain and continue to build partnerships that include all spheres of government, organizations of civil society, communities and the private sector.

## 1.2 Municipal Functions, Population and Environmental Overview

### 1.2.1 Households

There are 11 242 households in the municipality, with an average household size of 3, 3 persons per household. 90, 8% of households have access to piped water either in their dwelling or in the yard. Only 2, 2% of households do not have access to piped water.

#### Settlement type

Area	Percentage
Urban	83,3%
Tribal/Traditional	0%
Farm	16,7%

#### Housing and dwellings

All urban areas are composed of various residential components varying from formal housing units to informal dwellings units as indicated in the table below. Within the Local Municipality, 83.2% of the population live in formal housing, 16.1% in informal housing and only 0.5% in traditional housing. This reflects that the housing backlog is not that huge but will increase with the new development patterns in the municipality.

#### The following issues were highlighted regarding the housing delivery:

- Lack of funding for housing development;
- Access to land for sustainable human development;
- Construction of more RDP houses;
- Provision of services to new residential sites;
- Fast tracking land availability and transfer of land;
- Slow delivery of housing development;
- Lack of capacity at local municipal level;
- Low quality of RDP houses;

### 1.2.2 Socio economic status

The socio-economic growth of the municipality is centred on agriculture. The municipality area also has mining activities that are taking place with diamond minerals being the major natural resource which helps with employment creation. The municipality's endeavours in the short term will be to create a business enabling environment to the area, which will automatically attract investors to the area. This will bring significant economic growth to the municipal area.

Self-employment initiatives and SMME development which have been kick started through the Local Economic Development Unit of Letsemeng Municipality have brought a meaningful impact to the job creation component of the municipality. However, the challenge is the sustainability thereof due to limited financial resources and lack of skills by various people to run their own projects. Whilst the trend is worldwide in that about 96% of businesses/projects fail within the first five years, the municipality will make an effort to assist new project owners not to fail and thus, hopefully reduce the failure rate.

**Letsemeng Municipals economy is characterized by the following:**

- Mining and agricultural sector are the largest contributor to the local economy;
- The decline in the agricultural sector over the recent years has had an adverse effect on the employment potential of the rural areas;
- Luckhoff has the highest unemployment rate;
- De Beers Mines contributed a major part to the local economy before it was closed;

By virtue of its geographic location the Municipality prides itself as a natural transportation route for people travelling to destinations such as Bloemfontein since two of the major national roads, namely N12 and N8 pass through the municipal area.

**1.2.3 Income distribution**

In order to determine the people's living standards, as well as their ability to pay for basic services, such as water and sanitation, the income levels of the local population are analysed.

**Household Income**

Household income is a parameter which is, amongst others, also indicative of poverty levels within a community. A financially healthy community's household income usually displays a so-called "normal" income distribution pattern where the income is spread over a fairly wide range of income categories, and the income of the bulk of the community is situated more or less within the first half to two thirds of the income category range.

Females are more likely to be unemployed and looking for work than males. Poor communities are sometimes highly dependent on the environment for survival and, in this regard, almost always over-exploit the environment.

Only 10.2% of households in the Letsemeng Municipal fall within the "No income" category. Of concern is that 7.4% of the households in Letsemeng have an annual income of less than R 10 000 and 23.9% of the households have an annual income of less than R19 601.00.

### ***Income profile***

<b>Income</b>	<b>Percentage</b>
None income	10,2%
R1 - R4,800	4,2%
R4,801 - R9,600	7,4%
R9,601 - R19,600	23,9%
R19,601 - R38,200	24,6%
R38,201 - R76,4000	14,1%
R76,401 - R153,800	8%
R153,801 - R307,600	4,5%
R307,601 - R614,400	2,3%
R614,001 - R1,228,800	0,5%
R1,228,801 - R2,457,600	0,2%
R2,457,601+	0,1%

#### **1.2.4 Education and skills**

11 788 people are economically active (employed or unemployed but looking for work), and of these 22, 3% are unemployed. Of the 6 058 economically active youth (15 – 34 years) in the area, 27,7% are unemployed. The level of skills within an area is important to determine the level of potential employment.

#### **Unemployment**

Stats SA uses two definitions of unemployment. According to the (international) official or strict definition, the unemployed are those people within the economically active population who:

- Did not work in the seven days prior to census night;
- Wanted to work and were available to start work within a week of census night; and
- A person who fulfils the first two criteria above but did not take active steps to seek work is considered unemployed according to the expanded definition. This definition captures discouraged work seekers, and those without the resources to take active steps to seek work.

#### **Unemployed persons are:**

- Those who are unemployed and looking for work (strict definition of unemployment); or
- Those who are unemployed, not looking for work, but would accept work (expanded definition of unemployment).

Using the expanded definition, on average 22.3% of the population in Letsemeng is unemployed, with the highest rate of unemployment being in rural areas.

This high unemployment rate has serious repercussions on the ability of the residents of Letsemeng to pay for their daily needs. Unemployment is more than 21% in all of the areas and the highest is in Luckhoff at 32%.

The following illustrates the education profile in Letsemeng:

<b>Employment Status</b>	<b>Number</b>
Employed	9164
Unemployed	2624
Discouraged Work Seeker	1745
Not Economically Active	11518

Educations and skills profile

<b>Group</b>	<b>Percentage</b>
No Schooling	4,4%
Some Primary	45,4%
Completed Primary	8%
Some Secondary	29,9%
Completed Secondary	8,6%
Higher Education	0,6%
Not Applicable	3,1%

Figure 3: Employment status of population aged between 15 and 64 years by gender and geography

Geography	Employed			Unemployed			Not Economically Active			Unemployment Rate		
	M	F	Total	M	F	Total	M	F	Total	M	F	Total
FS:161: Letsemeng	5928	3236	9164	1170	1454	2624	6036	7227	13263	16.5	31.0	26.8
Koffiefontein	1192	736	1928	331	396	726	1672	2255	3928	21.7	35.0	27.4
Ratanang	488	386	874	138	129	268	606	833	1439	22.0	25.0	23.5
Jacobsdal	474	292	766	151	138	289	537	691	1228	24.2	32.1	27.4
Riet Rivier	289	102	391	3	6	9	83	191	274	1.0	5.6	2.3
Petrusburg	1172	758	1931	357	492	848	1066	1417	2484	23.3	39.4	30.5
Oppermans	121	72	194	32	36	68	120	167	287	20.9	33.3	26.0
Luckhoff	327	201	528	126	133	259	578	797	135	27.8	39.8	32.9

## 1.3 SERVICE DELIVERY OVERVIEW

### 1.3.1 Water

The Municipality's objective remains that of ensuring at least 100% of its inhabitants have access to portable water. Measures are being implemented on a regular and on-going basis to ensure that this objective is achieved. We will continue to ensure that this is met and clean water is delivered to our communities. Where necessary and required, the municipality will engage the Provincial/National Government as well as other key stakeholders. Projects such as the Petrusburg one undertaken in the previous year is an example of such co-ordinated and joint efforts.

90,8% of households have access to piped water either in their dwelling or in the yard. Only 2,2% of households do not have access to piped water.

Geography	Households				Percentages			
	Piped (tap) inside dwelling/yard	Piped (tap) water on community stand	No access to piped (tap) water	Total	Piped (tap) inside dwelling/yard	Piped (tap) water on community stand	No access to piped (tap) water	Total
FS:161: Letsemeng	10211	788	243	11242	90.8	7.0	2.2	100.0
Koffiefontein	3180	8	15	3203	99.3	0.3	0.5	100.0
Ratanang	1105	1	6	1112	99.3	0.1	0.5	100.0
Jacobsdal	646	354	3	1003	64.4	35.3	0.3	100.0
Riet Rivier	224	78	30	332	67.6	23.5	8.9	100.0
Petrusburg	2400	154	85	2639	91.0	5.8	3.2	100.0
Oppermans	230	-	-	230	100.0	-	-	100.0
Luckhoff	987	17	3	1007	98.0	1.6	0.3	100.0

#### Distribution of households with access to piped (tap) water by geography

### 1.3.2 Sanitation

The Municipality's continues to provide proper sanitation facilities to all communities. The municipality managed to eradicate some bucket system within the municipal area and this was achieved two years ago, earlier than the target dates set in National Standards.

Toilet Facility	Percentage
None	5%
Flush toilet (connected to sewerage system)	72,8%
Flush toilet (with septic tank)	2,7%
Chemical toilet	0,5%
Pit toilet with ventilation	10,5%
Pit toilet without ventilation	5,3%
Bucket toilet	2,3%
Other	0,8%

### 1.3.3 Electricity

Electricity provision in the Municipality is jointly supplied by ESKOM and the Municipality. The Municipality is servicing all the five towns under its jurisdiction, which are Koffiefontein, Petrusburg, Oppermansgronde, Jacobsdal and Luckhoff. The municipality also sells prepaid electricity to some Koffiefontein and Luckhoff residents. There are townships where ESKOM is the supplier.

Geography	Households				Percentages			
	Electricity	Other	None	Total	Electricity	Other	None	Total
FS:161: Letsemeng	10430	796	17	11242	92.8	7.1	0.1	100.0
Koffiefontein	3157	41	5	3203	98.6	1.3	0.2	100.0
Ratanang	1068	44	-	1112	96.0	4.0	-	100.0
Jacobsdal	809	187	7	1003	80.6	18.7	0.7	100.0
Riet Rivier	258	74	-	332	77.7	22.3	-	100.0
Petrusburg	2524	112	2	2639	95.7	4.3	0.1	100.0
Oppermans	227	2	-	230	98.9	1.1	-	100.0
Luckhoff	919	88	-	1007	91.3	8.7	-	100.0

**Distribution of households with access to electricity for lighting by geography**

### 1.3.4 Refuse removal

Waste Removal Services are provided to all the towns Koffiefontein, Petrusburg, Luckhoff, Oppermansgronde and Jacobsdal. The Municipality is in a process of developing an Integrated Waste Management Plan. These land fill sites that are currently used as transfer stations will be registered accordingly and be used fully as land fill sites.

Geography	Households					Percentages				
	Formal Dwelling	Informal	Traditional	Other	Total	Formal Dwelling	Informal	Traditional	Other	Total
FS: 161: Letsemeng	9358	1812	17	55	11242	83.2	16.1	0.1	0.5	100.0
Koffiefontein	2659	538	1	5	3203	83.0	16.8	0.0	0.2	100.0
Ratanang	861	240	2	10	1112	77.4	21.6	0.2	0.9	100.0
Jacobsdal	598	395	-	10	1003	59.6	39.4	-	1.0	100.0
Riet River	251	76	5	-	332	75.6	23.0	1.4	-	100.0
Petrusburg	2181	450	1	7	2639	82.6	17.1	0.0	0.3	100.0
Oppermans	229	1	-	-	230	99.5	0.5	0	0	100.0
Luckhoff	937	60	1	8	1007	93.1	6.0	0.1	0.8	100.0

**Distribution of households by type of refuse removal and geography**

### 1.3.5 Housing

The objective of the Municipality is to facilitate provision of adequate and affordable housing structures to the communities in its area of jurisdiction. Provision for houses is not the core competency of the Municipality, this objective is undertaken in partnership with the Provincial Department of Human Settlement which continues to allocate houses to residents on an on-going basis. This is mainly due to the fact that demand for housing remains a big challenge but remain committed to provide shelter to the communities we serve.



### 1.3.6 Roads and Storm Water

Another aim of the municipality is to facilitate the adequate and constant maintenance of access roads and to ensure regular maintenance of all internal roads. Every year, a lot more kilometres of internal roads have been repaired. To date more than 280 km's of these roads have been repaired. Furthermore, there is an annual allocation of sufficient budget allocation to ensure that roads are maintained.

## 1.4 Financial Overview

The following tables give a brief indication of the foregoing. A more detailed analysis is shown in Chapter 5 of this Annual Report.

### 1.4.1 Operating Results

Financial Overview-30 June 2014			
R'000			
Details	Original Budget	Adjustment Budget	Actual
<b>Income</b>			
Grants	96 280 000	96 280 000	78 310 498
Taxes, Levies and tariffs	50 962 000	50 962 000	46 865 124
Other	3 675 000	3 675 000	4 780 132
Sub Total	150 917 000	150 917 000	129 955 754
Less Expenditure	112 200 000	110 870 000	112 349 441
Net Total*	38 717 000	40 047 000	17 606 313

Operating Ratios	
Details	%
Employee Cost	24.02
Repairs & Maintenance	3.91
Depreciation	17.06
Finance Charges	0.51

### 1.4.2 Capital Expenditure

Total Capital Expenditure: Year 2011 to 2014			
R'000			
Details	2013/2014	2012/2013	2011/2012
Original Budget	42 306 000	23 881 000	19 500 000
Adjustment Budget	42 306 000	15 542 000	25 592 000
Actual	23 989 178	20 494 000	16 131 000

The actual capital expenditure was relatively more than budgeted levels as there were some projects that we need to complete so that the community can start benefiting from their use. This can be seen as a more aggressive approach but in our view, the main aim to offer services to our community. That is our main mandate. The top 5 major capital expenditures/projects that were undertaken during the current financial year are as follows:

- Jacobsdal/Ratanang: Construction of 3.3 km access road & storm water;
- Dithlake/Diamanthoogte: New Multipurpose Centre;
- Luckhoff: Upgrading of Sports Facility;
- Koffiefontein: Upgrading of existing Waste Disposal Site; and
- Petrusburg/Bolokanang: Construction of paved road (0.8KM).

For detailed information refer to Chapter 5.

### **1.4.3 Cash Flow Management**

We believe that one of the ways to be able to offer a good service to our community is to properly manage our finances. Service delivery is greatly linked to cash flow management. In line with that principle, the municipality constantly monitors its cash flows. This is evident by the relatively healthy cash flow position.

Our internal controls mechanism are in place and management's commitment in adhering to the MFMA regarding cash flow management are yielding the results.

## **1.5 Organisational Overview**

### **1.5.1 Staffing**

The municipality continues to make efforts to fill vacancies. Despite having been successful in filling the Chief Financial Officer position, the Municipal Manager and the Director Corporate Service and Director Community Services are still vacant. Municipal Manager post has been advertised and the position will be filled in the new financial year. We were able to attract a number of junior officials and have also absorbed casual workers who worked on a temporary basis during the last financial year. Although key positions are still vacant, we are in the process of filling them. As at 30 June 2014, the municipality's vacancy rate was 47%, which is relatively high.

The municipality will continue to provide training to those officials in need of the training (both onsite and offsite) as well as getting interns on the Internship programme. I am pleased to report that of the four interns we had on this programme in the previous intake, the municipality managed to retain all of them. This goes a long way in our capacity building.

### **1.6 Auditor General Report**

The municipality received a disclaimer opinion in audit report for the financial year 2013/2014. This was as a result of the municipality not having an Accounting Officer and the untimely passing of Chief Financial Officer at the critical time of regulatory audit. The municipality firm commitment towards good governance, accountability and efforts to extend to our people the benefits accruing from the resources of this municipality and also the back to basics campaign the audit opinion ought to be improved. With this kind of commitment we believe that the next audit opinion will be unqualified. Work has commenced in addressing the key challenges that led us to a qualified audit report.

We are looking forward to improving the opinion in the current year as we move towards the Back to Basics approach in promoting good governance and enhanced service delivery to improve quality of living of our communities. We have no doubt we will be able to achieve this.

### **1.7 Statutory Annual Report Progress**

The municipality strictly adheres to the MFMA Annual Report Timelines. This helps it to be able to provide and submit the annual report to the relevant stakeholders on time. The following is the brief timelines followed for the 2013/14 annual report:

No.	Activity	Timeframe
1	Consideration of next financial year's Budget and IDP process plan. Except for the Legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the end of the Budget/IDP implementation period	31/08/2014
2	Implementation and monitoring of approved Budget and IDP commences (In-year financial)	July
3	Finalise the 4 <sup>th</sup> quarter Report for previous financial year	
4	Submit draft 2011 Annual Report to Internal Audit and Auditor General	
5	Municipal entities submit draft annual reports to MM	
6	Audit/Performance committee considers draft Annual Report of municipality and entities	August 2014
8	Mayor tables the unaudited Annual Report	31/01/2015
9	Municipality submits draft Annual Report including consolidated annual financial Statements and performance report to Auditor General	August 2014
10	Annual Performance Report as submitted to Auditor General to be provided as input to	August 2014
11	Auditor General audits Annual Report including consolidated Annual Financial Statements and Performance data	September to November 2014
12	Municipalities receive and start to address the Auditor General's comments	30 November 2014
13	Mayor tables Annual Report and audited Financial Statements to Council complete with the Auditor-General's Report	30 January 2015
14	Audited Annual Report is made public and representation is invited	February 2015
15	Oversight Committee assesses Annual Report	March 2015
16	Council adopts Oversight report	March 2015
17	Oversight report is made public	April 2015
18	Oversight report is submitted to relevant provincial councils (COGTA)	May 2015
19	Commencement of draft Budget/IDP finalisation for next financial year. Annual Report and Oversight Reports to be used as input	January 2015

### **1.8 Risk Assessment and Shared Audit and Performance Committee**

The Municipality was supported by the Co Sourcing of Internal Audit Activity Thebeyaka Consulting Services and the unit conducted the risk assessment at the beginning of the financial year. It should however be noted that risk assessment is a continuous exercise hence the need to capacitate internal staff in performing this worthwhile function due to emergence of risks in our operational areas on daily basis. Further, the municipality utilised the services of the Xhariep District Municipality Shared Audit and Performance Committee as per sec 166 of the MFMA and also activities relating to Performance as per MSA. However it should be noted that Xhariep District Shared Audit & Performance Committee did not report to Council for the 13/14 Financial Year as required by Section 166 of the MFMA.

### **1.9 Appreciation**

I record my thanks and appreciation to the political leadership for support and guidance. The appreciation is also extended to the management and administration team who selflessly devoted so much time and effort in the execution of their mandates.

.....  
**Mr. BA Mnguni**  
**Municipal Manager**

## CHAPTER 2

### CO-OPERATIVE GOVERNANCE AND INTERGOVERNMENT RELATIONS

#### A. POLITICAL AND ADMINISTRATIVE GOVERNANCE

##### Introduction

In line with the Intergovernmental Relations Act, Letsemeng Local Municipality does consultations with other government departments such as provincial departments for purposes of informed planning, budgeting and support. The Act promotes engagement of government sectors. It is set to beat the challenge of government sectors working in silos. It encourages government sectors to inform and support one another on their actions and legislations.

Letsemeng Local Municipality believes the consultations with other government sectors were effective. The Mayor/Speaker was selected as a representative to the Intergovernmental Relations structures at the Council meeting held 24 June 2011.

To encourage good governance and public participation, Letsemeng Local Municipality has;

- a) set up section 79 committees as of 24 June 2011. The committees will assist in the disciplines of Finance & Integrated Development Planning, Health, Technical, Corporate Services and Human Resources.
- b) five wards of the Council (six wards after the 2011 local government) and is in the process of setting up the ward committees as of 30 June 2011.
- c) Public participation processes such as IDP and budget public consultations.

The Council of Letsemeng Local Municipality is comprised of 11 Councillors. In terms of section 7 of the Municipal Structures Act, the municipality has a plenary executive system. The system limits the exercise of the executive authority to the Municipal Council itself. The Mayor of the Municipality is also the Speaker.

In addition to the foregoing, the municipality is part of the District's shared Internal Audit Unit. The Internal Audit Unit, which reports to the Audit Committee, provides the much needed review processes and recommendations on the municipality's financial processes and performances as well as comments to the Oversight Committee on the Annual Report.

The Oversight Committee provides Council with comments and recommendations on the Annual Report. The Oversight committee's report will be published separately in accordance with the MFMA.

## 2.1 Political Governance

The council structure consists of 11 councillors. The council is a plenary system meaning that the Speaker of the council also assumes the responsibilities of the Mayor. There were four Sec 79 committees for the reporting period which were working effectively.

### Structure of Council

The Letsemeng Municipal Council consists of the following eleven (11) Councillors:-

Name of Councillor	Ward	Party
Mrs T.I. Reachable	Mayor/Speaker	African National Congress
Mr Pudumo J Louw	Chief Whip	African National Congress
<b>Ward Councillors</b>		
Councillor Mike M Tsiloane	Ward 1	African National Congress
Councillor Mzingo Jantjies	Ward 2	African National Congress
Councillor Sibongile Lechoko	Ward 3	African National Congress
Councillor Vuyisile A Mona	Ward 4	African National Congress
Councillor Muso A Mpatshela	Ward 5	African National Congress
Councillor Palesa Dibe	Ward 6	African National Congress
<b>PR Councillors</b>		
Councillor Pudumo J Louw	PR	African National Congress
Councillor Kempen Nel	PR	Democratic Alliance
Councillor Lionel Greef	PR	Democratic Alliance
Councillor Vanitta Coetzee	PR	COPE

### PORTFOLIO COMMITTEE

The municipality established Council Portfolio Committees in June 2011. The committees were established in line with Section 79 of the Municipal Structures Act.

Section (1) states that:

A Municipal Council may;

- (a) Establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers'
- (b) Appoint the members of such a committee from among its members;

The Councillors serving on the Section 79 Committees have been appointed from amongst the members of the Municipal Council. These Section 79 Committees are chaired by Councillors appointed by the Municipal Council and are delegated duties and powers for the effective and efficient performance of Council's functions or the exercise of its powers. Each Section 79 Committee is responsible for ensuring effective political oversight of departmental activities through the consideration of reports from the Municipal Manager and Directors and relevant Managers. Based on the said reports these committees make recommendations for consideration by the Municipal Council.

**Below is a list of Portfolio Section 79 Committees and Councillors who serve on these committees.**

<b>Section 79 Committee</b>	<b>Chairperson</b>	<b>Members</b>
Planning & Development Committee	Councillor P Dibe	<ul style="list-style-type: none"> <li>• Councillor TI Reachable</li> <li>• Councillor M Jantjies</li> <li>• Councillor K Nel</li> </ul>
Technical & Infrastructure Committee	Councillor PJ Louw	<ul style="list-style-type: none"> <li>• Councillor P Dibe</li> <li>• Councillor V Coetzee</li> </ul>
Finance Committee	Councillor MM Tsiloane	<ul style="list-style-type: none"> <li>• Councillor P Louw</li> <li>• Councillor K Nel</li> </ul>
HR & Corporate Services Committee	Councillor M Jantjies	<ul style="list-style-type: none"> <li>• Councillor VA Mona</li> <li>• Councillor S Lecoko</li> </ul>
Community Services & Public Safety and Security Committee	Councillor S Lecoko	<ul style="list-style-type: none"> <li>• Councillor M Mpatsehla</li> <li>• Councillor M Tsiloane</li> </ul>
Health Committee	Councillor M Mpatsehla	<ul style="list-style-type: none"> <li>• Councillor L Greef</li> </ul>
Sport Committee	Councillor M Tsiloane	<ul style="list-style-type: none"> <li>• Councillor L Greef</li> </ul>

### **Terms of Reference of Portfolio Committees**

Subsection (2) (a) and (b) of the same section states that;

A Municipal Council;

- (a) Must determine the functions of the committee,
- (b) May delegate duties and powers to it in terms of section 32 of the Municipal Systems Act.

The terms of reference of the committees had not been established at the end of the financial period under review as stipulated in the Act. The process is underway to clearly define the roles of these committees.

### **Implementation of Council Resolutions**

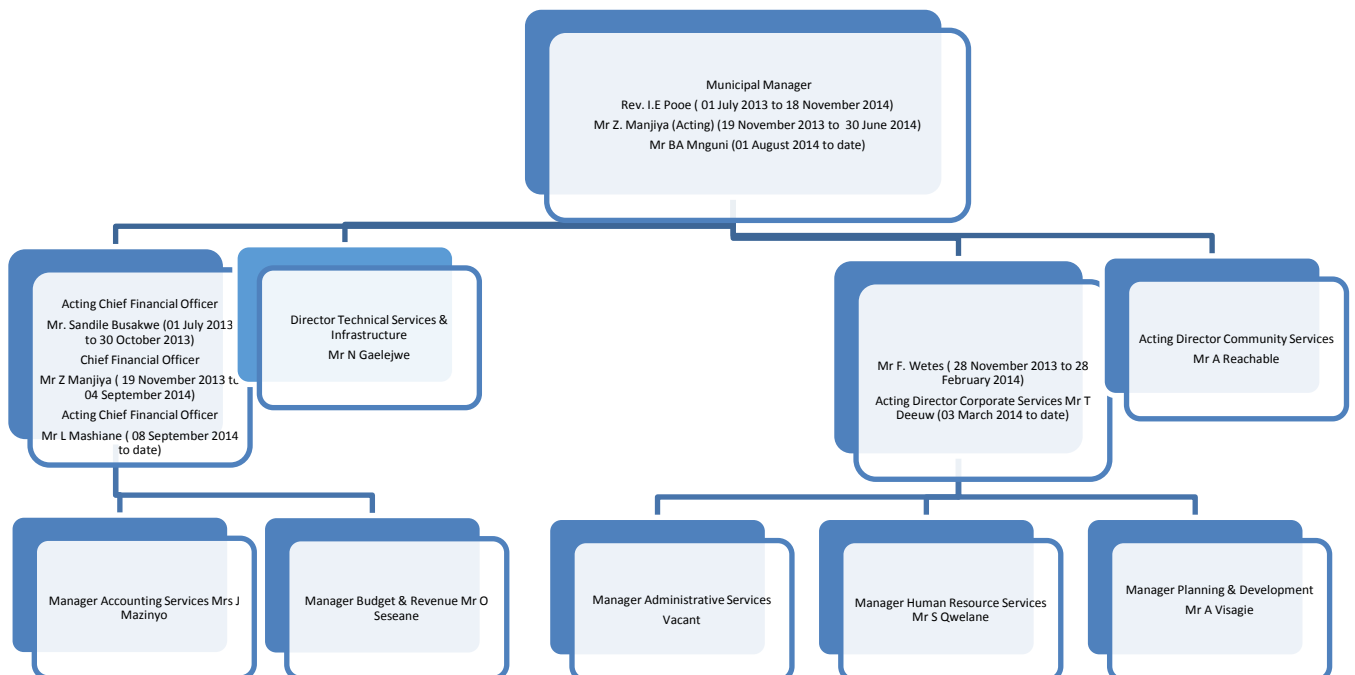
Council resolutions are implemented as far as possible and there is also an execution list which shows how far the resolution of Council has been implemented. This list is considered by Council (where possible) during ordinary Council meeting or where council minutes are considered.

## 2.2 Administrative Governance

The Municipal Manager is the head of the administration and is assisted by four (4) Directors to manage the four Directorates within the municipal administration, which is preceded by the office of the Municipal Manager which accounts to the highest office within the institution, the office of the Mayor. Herewith the different Directorates within the municipal administration:-

1. Office of the Mayor
2. Office of the Municipal Manager
3. Finance Department
4. Corporate Services
5. Technical and Infrastructure Services
6. Community Services

Below herewith is a layout of the Management Structure of the Letsemeng Municipality, which is being headed by the Accounting Officer.





## **B. INTERGOVERNMENTAL RELATIONS**

### **2.3 Intergovernmental Relations**

The municipality participates in a number of forums ranging from National to Local. These forums are taken seriously as they help our officials in exchanging ideas with their counterparts on a number of municipal related activities. The following are some of forums in which the municipality participates:

#### National Intergovernmental Structures

The Municipal Manager and Chief Financial Officer participate in the MMs Forums and CFOs Forums respectively.

During the current year, our senior municipal officials attended various conferences some of which were the IIA annual conference in August, IIA: Public Sector Forum and IMFO conference.

#### Provincial Intergovernmental Structures

The Mayor is the Chair Person of SALGA Provincial Working Group of LED/IDP. The municipality's officials attend a number of provincial co-ordinated forums such as the Provincial communicators forum, Provincial planning forums which encompass the combination of both IDP Managers and LED matters, Provincial co-ordinating forum which is arranged by the office of the premier, SALGA MM's forum, SALGA working groups aligning all the Key performance areas of the following departments: finance, Infrastructure (Technical), HR, LED and Community Services. The municipality's officials attend any workshops organised by the Provincial Government. During the year a number of such workshops/forums were attended.

#### District Intergovernmental Structures

At local government level the District Municipal Managers forum is attended by the Municipal Manager, whilst the Mayor attends the District mayor's forum. Furthermore there are IDP manager's forums, LED forums and District intergovernmental Relations forums that the municipality partakes in.

## **C. PUBLIC ACCOUNTABILITY AND PARTICIPATION**

### **2.4 Public Meetings**

Several public meetings or engagements were held during the year. The objectives and frequency of these meeting or engagements various and at times are ad hoc. For example, during the year the following key engagements with various stakeholders were held:

- The Mayor held several meetings with the farming community and other stakeholders. The main objectives were to discuss issues pertaining to payment of property rates as well as the contribution farmers can make in terms of develop within the municipal area.
- IDP and Budget Public Participation
- Ward Committee meetings

Some of these engagements lead to a draft IDT agreement which, once signed, will be used in the implementation of the LED Strategy.

Public meetings held during the year:

Ward	Purpose of Meeting	Date of Event	Number of participating Councillors	Number of participating administrators	Number of community members attending	Issues addressed	Date and manner of feedback given to community
1	Upgrading of Luckhoff Combined School	21-Nov-13	10	6	220	Date of contractor on site	16 February 2014, public meeting
2	Youth challenges Municipal rates	19-Nov-13	8	11	198	Community to pay rates on time	30-Mar-14
3 & 6	Handover of title deeds	23-Mar-14	3	5	455	Handed over community members	23-Mar-14
4 & 5	Handover of title deeds	02-Mar-14	7	9	163	Municipal stats and title deeds handed over	02-Mar-14

## 2.5 IDP Participation and Alignment

IDP Participation and Alignment Criteria*	Yes/No
Does the municipality have impact, outcome, input, output indicators?	Yes
Does the IDP have priorities, objectives, KPIs, development strategies?	Yes
Does the IDP have multi-year targets?	Yes
Are the above aligned and can they calculate into a score?	No
Does the budget align directly to the KPIs in the strategic plan?	Yes
Do the IDP KPIs align to the Section 57 Managers	Yes
Do the IDP KPIs lead to functional area KPIs as per the SDBIP?	Yes
Do the IDP KPIs align with the provincial KPIs on the 12 Outcomes	Yes
Were the indicators communicated to the public?	Yes
Were the four quarter aligned reports submitted within stipulated timeframes?	No
<i>*Section 26 Municipal Systems Act 2000</i>	
T2.5.1	

## D: CORPORATE GOVERNANCE

### 2.6 Risk Management

Letsemeng Local Municipality has developed and approved a risk management strategy and policy but has not established the Risk Management Committee for managing and monitoring of risks on an on-going basis. However there is a committee established internally to deal with operational risk matters however it is not effective. A resolution has been taken that a member of the Shared Audit and Performance Committee becomes the chair of the Risk Management Committee to ensure its effectiveness and that it functions as intended. The Municipality was supported by the Co Sourcing of Internal Audit Activity Thebeyaka Consulting Services and the unit conducted the risk assessment at the beginning of the financial year. Internal Audit Activity assist at times however it creates a risk as duties overlap. During the period ending 30 June 2014, reports relating to risk management and assessment were presented to the Shared Audit & Performance Committee. Based on the risk management reports presented, the Committee is satisfied that risk within the Municipality is reasonably managed but it needs to be improved.

Top risks to the municipality

- Operational risks
- Financial risks
- Strategic risks
- Technical risks

### 2.7 Anti-Corruption and Fraud

The municipality now has an approved Fraud Risk Management Strategy and Policy and Fraud Prevention Plan in place.

### 2.8 Supply Chain Management

The Municipality has established a Supply Chain Management Unit as required by legislation. The eminent challenge has been filling the unit with adequately skilled officials. Since its establishment, there has never been a time where all approved positions within the unit are filled. Currently, the Unit consists of one supply chain management clerk and finance clerk. The situation poses a serious challenge as controls and procedures are not adhered to during procurement process thereby resulting in irregular expenditure.

### 2.9 By-Laws

By-laws Introduced during the Current Year 1					
Newly Developed	Revised	Public Participation Conducted Prior to Adoption of By-Laws (Yes/No)	Dates of Public Participation	By-Laws Gazetted* (Yes/No)	Date of Publication
Standard Building Regulation 2011	New	No	N/A	No	N/A

Newly Developed	Revised	Public Participation Conducted Prior to Adoption of By-Laws (Yes/No)	Dates of Public Participation	By-Laws Gazetted* (Yes/No)	Date of Publication
Standard Control of streets Vendors, Peddlers or Hawkers 2011	New	No	N/A	No	N/A
Standard Control of public nuisance 2011	New	No	N/A	No	N/A
Standard Numbering of Buildings 2011	New	No	NA	No	N/A

For all the newly developed by-laws, the Municipality anticipates that the notice for public participation will be availed to the public in September 2014 and the actual public participation process will be conducted or to be completed in October 2014.

## 2.10 Websites

Whilst the municipality's website is not update on a regular basis and with all the information that is supposed to be uploaded, great strides and achievements have been made to date. A number of documents were uploaded on time, thus available to the public. Measures are in place to ensure that documents are uploaded on the website on a timely.

## **CHAPTER 3**

### **SERVICE DELIVERY PERFORMANCE (PERFORMANCE REPORT PART 1)**

#### **Introduction**

The Performance report of basic service delivery provides progress made in the provision of basic services to communities which are sanitation, water and the implementation of the indigent policies by Municipalities in an attempt to address the three strategic objectives namely:

- To ensure that services are provided to the community in a sustainable manner
- To promote social and economic development
- To promote safe and healthy environment

## A. SERVICE DELIVERY PERFORMANCE

### 3.1 Annual Performance for 2013/14: Budget and Treasury

KEY PERFORMANCE AREA (KPA)	IDP GOAL / OBJECTIVE	KEY PERFORMANCE INDICATOR (KPI)	ANNUAL TARGET	Overall annual assessment	Comments
			2013-2014		
Municipal transformation and institutional development	Introduce effective billing processes and increase revenue collection	Effectiveness of the Credit Control Unit	Effectiveness of Credit Control Unit established by at least 31 December 2013	Not achieved	
Municipal transformation and institutional development	Introduce effective billing processes and increase revenue collection	Upgrading of the Financial Management System from 5.3 to 5.6	Vision 5.6 to be implemented by at least 30 September 2013.	Achieved	
Municipal transformation and institutional development	Introduce effective billing processes and increase revenue collection	Converting to Cloud ware server.	The real time merging be made before 30 December 2013	Not achieved	
Municipal transformation and institutional development	Promote and enhance skills development and capacity building	Appointment and training of officials within the Credit Control Unit	All position within the Credit Control Unit and debtors section filled and training provided to officials	Not achieved	
Municipal Financial Viability and Management	Improvement of the revenue management and collection	Compile a monthly cut-off list for non-paid / arrear accounts	12 monthly cut-off list compiled and submitted to the Municipal Manager for approval	Achieved	

Municipal Viability and Management	Financial and	Improvement of the revenue management and collection	Increase in payment rate for services	Improve the payment rate to 80% by 30 June 2014	Not achieved	
Municipal Viability and Management	Financial and	Improvement of the revenue management and collection	Indigent register compiled and updated on a monthly basis	12 updates made on the Indigent Register	Achieved	
Municipal Viability and Management	Financial and	Improvement of the revenue management and collection	A list of bad-debts to be written off submitted to Council	Bad-debt list submitted to Council by 30 August 2013 for consideration and/or approval	Not achieved	
Municipal Viability and Management	Financial and	Effective billing of consumers for services rendered	Number of consumers billed on a monthly basis	95% of consumers billed timeously on a monthly basis	Achieved	
Municipal Viability and Management	Financial and	To identify and investigate inaccurate meter readings / consumptions.	Monthly variance report printed on a monthly basis and variance investigated	12 monthly variance reports	Achieved	
Service Delivery and Free Basic services		Ensure provision and reporting on Free Basic Services	Free basic services quarterly monitoring report/template submitted to Cogta	4 Free Basic Services quarterly monitoring report/template submitted to Cogta within 10 working days after the end of the quarter	Achieved	
Municipal Viability and Management	Financial and	Reduce the long outstanding debt	Revenue strategy submitted to Finance Committee on long outstanding debts and collecting agent appointed	Revenue collection strategy / plan introduced by August 2012 and accounts	Not achieved	

			handed to collecting agents		
Good governance and community participation	To compile the annual budget according to the MFMA and relevant legislation.	Approved schedule of key deadlines regarding the budget process for 2014-15 MTREF	Schedule of deadlines for 2013-14 MTREF tabled by the Mayor to Council by 30 August 2013	Achieved	
Municipal Financial Viability and Management	To compile the annual budget according to the MFMA and relevant legislation	Draft 2014-15 annual budget tabled to Council for consideration	Draft annual budget tabled to Council by 29 March 2014	Achieved	
Good governance and community participation	Improvement of Community and stakeholder participation on the budget process	Inputs / comments requested from stakeholders and considered where necessary	One meeting held on the tabled annual budget	Achieved	
Municipal Financial Viability and Management	To compile the annual budget according to the MFMA and relevant legislation	Final draft budget submitted to Council for consideration and approval	Submission of final draft budget to Council by 31 May 2014 for consideration and approval by 30 June 2014	Achieved	
Municipal Financial Viability and Management	Review the financial management and budget related policies	Draft financial management and budget related policies submitted Council	Approved draft budget related policies by 28 March 2013	Not achieved	
Good governance and community participation	Financial and performance reporting done in accordance with the	Monthly financial reporting performed.	Submission of 12 section 71 reports to the Municipal Manager;	Not achieved	



	applicable legislation		Mayor and NT/PT in Schedule C and Appendix B returns		
Good governance and community participation	Financial and performance reporting done in accordance with the applicable legislation	Quarterly financial reporting performed	4 quarterly reports submitted to the Municipal Manager; Mayor and Council on the implementation of the annual budget and performance assessment	Achieved	
Municipal Financial Viability and Management	To compile the annual budget according to the MFMA and relevant legislation	Mid-year budget and performance report compiled and submitted to the Municipal Manager and the Mayor	1 mid-year budget and performance assessment report submitted to the Municipal Manager and Mayor	Achieved	
Municipal Financial Viability and Management	To compile the annual budget according to the MFMA and relevant legislation	Compilation of the 2012-13 Adjustment Budget in line with the MBRR	1 adjustment budget compiled and submitted to the Municipal Manager and Mayor/Council by 28 February 2013	Achieved	
Municipal Financial Viability and Management	Ensure compliance to procurement legislation	Procedure manual on SCM procedures and processes	Procedure manual developed by September 2013	Not achieved	
Municipal transformation and institutional	Training and development of officials on SCM policy and Procedures	Training conducted on SCM policy and procedures	Workshop on SCM Policy and procedures	Not achieved	

development						
Municipal Viability and Management	Financial and	Ensure transparent; cost effective and economical procurement processes	Quarterly report on the implementation of the Supply Chain Management policy	4 quarterly reports submitted to the Municipal Manager and Mayor on the implementation of the Supply Chain Management policy	Achieved	
Municipal Viability and Management	Financial and	Ensure transparent reporting on supply chain management processes	Registers for irregular, unauthorised, fruitless and wasteful expenditure	4 quarterly reports on irregular, unauthorised, fruitless and wasteful expenditure registers	Achieved	
Municipal Viability and Management	Financial and	Ensure transparent reporting on supply chain management processes	Report on contracts / awards above R100 000	100% of awards above R100 000 reported to NT monthly and to Council quarterly	Achieved	
Municipal Viability and Management	Financial and	Ensure transparent; cost effective and economical procurement processes	A database of suppliers established and maintained per service	A supplier's database re-advertised by September 2013	Not achieved	
Municipal Viability and Management	Financial and	Ensure transparent; cost effective and economical procurement processes	Number of tenders within the BTO awarded within 90 days from date of advertisement	All tenders within the BTO to be awarded within 90 days from date of advertisement	Achieved	
Municipal Viability and Management	Financial and	To ensure timeous payments of salaries	Payment of salaries to Councillors, and employees made on time (25th of each month or prior)	12 salary payments made to Councillors and employees	Achieved	

Municipal Viability and Management	Financial and	To ensure timeous payments salary deduction on Councillor's and employee's salaries to the relevant third parties	Payments to third parties made on time	Third parties paid within 7 days from the salary payment date	Achieved	
Municipal Viability and Management	Financial and	Ensure effective expenditure management	Percentage of creditors paid within 30 days	90% of the creditors paid within 30 days after receiving the relevant/correct statement or invoice	Not achieved	
Municipal Viability and Management	Financial and	Conditional grants used and utilised in line with the conditional framework	FMG grants spend by 30 June 2014	100% spending on FMG	Achieved	
Municipal Viability and Management	Financial and	Conditional grants used and utilised in line with the conditional framework	MSIG grants spend by 30 June 2014	100% spending on MSIG	Achieved	
Municipal Viability and Management	Financial and	Conditional grants used and utilised in line with the conditional framework	Grant register for FMG and MSIG conditional grants	FMG and MSIG grant registers updated on a monthly basis	Achieved	
Good governance and community participation		Achievement of the 2014 clean audit objectives	Quarterly reports to management and Council on resolving of PROPAC resolutions pertaining to the BTO	100% of the PROPAC resolution implemented as required	Not achieved	
Good governance and community participation		Compile the Annual Financial Statements for submission to AGSA	2012-13 Annual Financial Statements compiled and submitted to AGSA	Submission of 2012-13 AFS 31 August 2013	Achieved	

Good governance and community participation	Compile the Interim Financial Statements for submission to AGSA	Six Month financial statements prepared	3 quarterly financial statements	Not achieved	
Good governance and community participation	Achievement of the 2014 clean audit objectives	Timeous response to audit queries that relates to BTO raised by AGSA / IAU during audit period	100% responses pertaining to the BTO on exceptions raised by AGSA on the AFS	Achieved	
Municipal Financial Viability and Management	Achievement of the 2014 clean audit objectives	GRAP compliant asset register developed	Maintaining Asset Register Quarterly	Achieved	
Good governance and community participation	Achievement of the 2014 clean audit objectives	Audit recovery plan developed in response to audit queries raised on the audit report / management report	Develop audit recovery plan for 2012-13 audit by 31 December 2013 for audit exceptions relating to BTO	Achieved	
Good governance and community participation	Facilitate proper risk and insurance management in the Municipality	All municipal assets insured by 01 July 2012	Additional assets to be insure with the insurer.	Achieved	
Good governance and community participation	Assess the risk level of the BTO in terms of meeting its objectives	Completion of the risk management questionnaire / template of Cogta and UOFS	Risk management questionnaire / template completed by July 2013	Not achieved	
Municipal Financial Viability and Management	Compilation of the Municipal valuation roll in line with MPRA	Existence of General Valuation Roll for 2013-14 till 2016-17 financial years	Complete General Valuation Roll by 01 July 2013	Achieved	
Municipal transformation and institutional	Institutional capacity and development	Appointment of staff in critical positions within BTO	Appointment of SCM Practitioner; Asset Management	Achieved	

development			Practitioner; Manager Revenue & Budget		
Good governance and community participation	Promote the culture of consultation within the BTO	Number of departmental meetings held (minutes / audio files)	12 departmental meetings held on a monthly basis	Not achieved	
Good governance and community participation	Promote the culture of consultation between the Administration and Council Committees	Number of Finance Committee meetings held (minutes / audio files)	4 Finance Committee meetings held	Not achieved	
Good governance and community participation	Promote Intergovernmental Relations within the provincial and district level	Number of CFO Forums attended	Attend all provincial CFO Forum co-ordinated by PT and all district CFO Forum co-ordinated by Xhariep DM	Not achieved	
Municipal transformation and institutional development	Capacity building opportunities and skills programs	Number of external trainings attended by BTO staff	To train officials on GRAP; on Revenue Management; on SCM; a Councillor trained on Oversight Role on Cllrs.	Achieved	
Good governance and public participation	Publication of the prescribed documents on the website	Re-designed website with pages that includes all prescribed documentation	Publication of the prescribed documents to be put on the website.	Not achieved	
Service delivery and basic services	Determine an accurate estimate of water distribution losses	Procurement of bulk meters for water services	Sufficient Bulk water meters procured by at least 30 December 2013	Achieved	
Service delivery and	Provision of sustainable and adequate access to water	Procurement of household	200 water meters procured by 30	Not achieved	

basic services	resources	water meters	December 2013		
Service delivery and basic services	Provision of sustainable and adequate access to water resources	Procurement of 15 millilitre water taps	100 water taps procured by 30 December 2013	Achieved	
Service delivery and basic services	Provision of sustainable and adequate access to water resources	Procurement of pre-paid electricity meters	100 pre-paid electricity meters procured by 30 December 2013	Not achieved	
Local Economic Development	Promote local economic within the municipality	Payment of SMME's (within Letsemeng jurisdiction) within 20 days of receipt of invoice or statement	100% of local SMME paid within 20 days of receipt of the relevant invoice or statement	Achieved	
Service delivery and basic services	Redundant assets auctioned	Coordinate and arrange public auctions for identified redundant items / assets approved by Council	One auction held for redundant items / assets after approval by Council	Not achieved	

### 3.2 Annual Performance for 2013/14: Corporate Services

KEY PERFORMANCE AREA (KPA)	IDP GOAL / OBJECTIVE	KEY PERFORMANCE INDICATOR (KPI)	ANNUAL TARGET	Overall annual assessment	Comments
			2013- 2014		
Municipal transformation and institutional development	Improvement of customer care and Batho Pele principles	Improve service delivery	Effectiveness of customer care and fully functional customer care by 31 December 2013	Not achieved	Management changed from time to time, and that caused a delay to achieve some of the targets.
Municipal transformation and institutional development	Monitoring and evaluation of complains	Reduce complains	Reduce service delivery complains by 80%	Not achieved	There was a shortage of general workers and customer care clerks.
Municipal transformation and institutional development	Agreement issued to all renters of Municipal property	All property renters issued and sign agreement.	All Municipal properties must have contracts by 31 December 2013	Not achieved	The Corporate Services director's post was not filled and there was no HR manager too.
Municipal transformation and institutional development	Development of council property policy	Manage municipal property effectively	Development of Council property by the end of financial year	Not achieved	The council Property policy could not be developed because the Corporate Services director's post was not filled and there was

					shortage of management personnel.
Municipal transformation and institutional development	Effective leave management register and processing	Manage and consolidate leave register	To have a consolidated leave register	Not achieved	Leave register could not be consolidated, due to shortage of employees in the HR department. There was only HR clerk without HR Manager and HR Officer. The HR manager was appointed in May 2014.
Municipal transformation and institutional development	Employee wellness policy	Have employee wellness policy	To have employees wellness policy	Achieved	
Municipal transformation and institutional development	Filling of all vacant critical posts in order of preference	Filling of critical posts	To fill all critical posts	Achieved	
Municipal transformation and institutional	Provide comprehensive training and education for	Provide training for employees	Employees nominated for training in line with	Not achieved	There was no delegation to deal with trainings due



development	human resource		WSP		to shortage of staff. The Skills Development Officer's post is still vacant.
Municipal transformation and institutional development	Proper records management system	Proper records management developed	Records management policy in place	Achieved	
Good Governance and Public Participation	Arrangement of Council/committee meetings as per meeting schedule of council and compiling the agendas and minutes to council meetings	Timely compilation of agendas 3 days prior the meetings	Timely compilation of agendas 3 days prior the meetings	Achieved	
Good governance and community participation	Timely compilation of departmental instructions	Timely compilation of departmental instructions following the meetings	Compile and implement council resolutions on time	Achieved	
Good governance and community participation	Effective communication strategy to promote transparency, accountability, access to complaints are dealt with in terms of the relevant legislation, developed and implemented.	Development of communication strategy	Development of effective communication strategy	Not achieved	There was no delegation due to shortage of staff.

Good governance and community participation	Provide sound legal advise	Provision of by-laws	Update and approval of by-laws	Achieved	
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### 3.3 Annual Performance for 2013/14: Technical Department

KEY PERFORMANCE AREA (KPA)	IDP GOAL / OBJECTIVE	KEY PERFORMANCE INDICATOR (KPI)	ANNUAL TARGET	Overall annual assessment	Comments
			2013- 2014		
ROADS	1. To provide internal gravel and tarred roads.	Total km of roads paved	Paving of 1.3km roads in Ratanang	Achieved	
		Total km of roads re-gravelled	Paving of 0.8km roads in Bolokanang	Not achieved	In progress (75%)
		Total km of roads bladed	Re-gravelling of 3.5km roads in Ratanang	Not achieved	Internal funding not available
		No. of road signs and street names boards provided	Blading of 3km roads in Diamanthoogte and Bolokanang	Not achieved	Internal funding not available
		Km of road markings completed	Paving of 0.65km roads in Dithlake	Not achieved	In progress, tender stage
STORM WATER	2.To provide Storm water networks that will ensure the safety of the local community and reduce the risks of floods	Total km of new storm water channels constructed	Construction of 1.3km storm water channels in Ratanang	Achieved	
		Total km of storm water channels upgraded	Construction of 0.8km storm water channels in Bolokanang	Not achieved	In progress (75%)
		Total km of storm water channels cleaned	Upgrading of 2.5km storm water channels in Bolokanang	Not achieved	In consultation with Kalkfontein

		Total km of storm water berms constructed	Upgrading of 2.5km un-lined storm water channels in Petrusburg and Bolokanang	Not achieved	EPWP will assist, limited internal funds
			Construction of 2km storm water berm in Petrusburg	Not achieved	Internal funding not available
WATER	To provide quality basic services portable water	No. of households with new stand taps	Stand taps (180) to Diamanthoogte	Achieved	
			Stand taps (80) to Bolokanang	Not achieved	Internal funding not available
		No. of new domestic water meters installed	New pre-paid water meters (250) in Jacobsdal	Achieved	
		No. of new bulk water meters installed in Letsemeng	New bulk water meters (45) installed	Not achieved	Purchasing done, installation to commence September 2014

		No. of WTW upgraded(% progress)	Upgrading of 2 WTW in Jacobsdal and Luckhoff	Not achieved	In progress, Consultants and Contractors have been appointed by Sedibeng
		Km of new raw water supply network	Construction of 7km raw water supply pipeline in Jacobsdal	Not achieved	In progress (83%)
		No. of Community Awareness Campaigns in Letsemeng	1 Community Water Conservation	Achieved	
		No. of other water supply measures installed in Letsemeng	Supply of (10) 5000l temporary water tanks (Jojo)	Achieved	
SANITATION	To provide sufficient, efficient internal and bulk sewerage networks.	No. of WWTW upgraded (%Progress)	Upgrading of (2) WWTW in Luckhoff, and Jacobsdal	Not achieved	In progress, tender stage
		No. sewer pump stations upgraded in Letsemeng	Upgrading (4) sewer pump stations in Koffiefontein	Not achieved	In progress (65%)
		No. of Pit toilets provided	Provision of (80) pit toilets to Phambili	Not achieved	Limited internal funds
		No. of reconstructed toilet structures	Reconstruction of toilets (200) in Bolokanang	Not achieved	Limited internal funds

ELECTRICITY	To effect efficient management of the electrical division	No. of New High Mast Lights installed in Letsemeng	10 High Mast installed	Achieved	
SOLID WASTE	To provide an integrated waste management plan for the entire Municipality	No. of landfill sites registered	1 landfill sites registered (Koffiefontein)	Not achieved	In progress
		No. of landfills upgraded	2 landfill sites upgraded (Koffiefontein)	Not achieved	In progress, licencing signed by Municipal Manager
		No. of internal communal stations upgraded in Letsemeng	20 sites completed	Not achieved	Internal funding not available
		No. of communal refuse bins provided in Letsemeng	30 refuse bins provided	Not achieved	Internal funding not available

		No. of street refuse bins provided in Letsemeng	40 street refuse bins provided	Not achieved	Internal funding not available
PUBLIC AMENITIES	Develop, maintain and control public facilities to promote safety, sports community ownership and tourism	No. of local parks upgraded and developed (% progress).	Upgrading of (2) local parks per town (50%)	Not achieved	In progress, tender stage
		No. of local cemeteries upgraded. (% progress)	Upgrading of Diamanthoogte Cemetery	Not achieved	District municipality has been consulted on funding
		Number of sports facilities upgraded	Upgrading of sports facility in Luckhoff	Not achieved	In progress (95%)
		(% progress)			
PLANNING, MANAGEMENT AND EMPOWERMENT	To provide local empowerment opportunity	No. of local SMME opportunities created	15 SMMEs employed	Achieved	
	Effective management of the department	No. of personnel attending accredited training	30 persons attending accredited training (Plant Operators and	Not achieved	In progress, awaiting attendance

					certificates
		Creation of a Community Services Connection Team	Fully functional team (1)	Not achieved	Finance and legal department is being consulted on the implementation
		Centralisation of Stores (% Progress)	Fully functional centralized store in Koffiefontein	Achieved	
GOVERNANCE AND PUBLIC PARTICIPATION	Effective management	No. of Technical Committee meetings.	12 meeting held (1 per month)	Not achieved	Availability of key members is affecting seatings but a Council approved schedule is now available.
		No. of Departmental management meeting.	12 meeting held (1 per month)	Achieved	



## CHAPTER 4

### 4. ORGANISATIONAL DEVELOPMENT PERFORMANCE (PERFORMANCE HIGHLIGHTS PART II)

#### Introduction

The municipality is located in a remote area and has over the years experienced difficulties attracting skilled employees. The municipality therefore relied more on training and retaining staff.

#### A. INTRODUCTION TO THE MUNICIPAL PERSONNEL

##### 4.1. Employee Totals, Turnover and Vacancies

Employees: Human Resources Services						
	Total Number of filled posts	Total number of Vacant Posts	Total number of posts on establishment	Number of posts Advertised	Vacancies (as a % of total posts)	Comments
General Workers	76	108	184		59%	
Clerks	34	8	42		19%	
Officers	19	15	34		44%	
Managers	5	2	7		29%	
Directors	3	1	4		25%	
Councillors	11	0	11		0%	
Municipal Manager	1	0	1		0%	
<b>Total</b>	<b>149</b>	<b>134</b>	<b>283</b>			

Description	Year: 0	Year: 1		Year: 2
	Employee No	Approved Post No	Employees No	Vacancies No.
Legislatures	11	11		
Municipal Manager	1	1		
Section 56/57	3	4		
Managers	5	7		
Roads and Transport	21	15		
Waste Water Services	7	17		

Water	20	19		
Waste Management Service	15	80		
Planning	3	3		
Electricians	6	10		
Library	6	6		
Halls	1	5		
Corporate Service	17	59		
Community Services	0	5		
Municipal Managers Office	2	5		
Finance department	22	28		
Office of the Mayor	9	8		
<b>Total</b>	<b>149</b>	<b>283</b>		

### **Vacant Posts**

#### **Finance Department**

- 1 X Supply Chain Management Practitioner
- 1 X Payroll Officer
- 1 X Demand and Acquisition Clerk
- 1 X IT Clerk
- 1 X Credit Controller
- 2 X Debtors Clerk
- 1 X Credit control clerk
- 1 X Creditors Clerk

#### **Corporate Services**

- 1 X Corporate Director
- 1 X Secretary
- 38 X Buildings Securities
- 1 X Facilities Coordinator
- 1 X Committee Typist/Clerk
- 1 X Skills Development Officer
- 2 X Human Resource officers
- 1 X Admin Officer

#### **Community Services**

- 1 X Secretary/ Clerk
- 1 Public Safety and Security Officer
- 1 X Human Settlement Officer
- 1 X Land Officer
- 1 X Unit Manager

#### **Municipal Manager's Office**

- 1 X IDP Clerk
- 1 X Risk Officer
- 1 X PMS Officer

**Electricity**

2 X Artisans  
2 X Electricians

**PMU**

1 X Technician  
1 X PMU Manager

**Water Treatment**

5 X Plant Operators  
1 X Supervisor  
1 Plumber  
1 X Water Quad Technician

**Waste water Treatment**

5X Plant Operators  
1 X Supervisor  
1 X Plumber  
1 X Technical Officer  
1 X Technical Clerk

**Waste Collection**

10 X Compact Drivers  
10 X Dipper Drivers  
9 X Tractor Drivers

<b>Vacancy Rate: Year 2013/14</b>			
<b>Description</b>	<b>Total Approved Posts No.</b>	<b>Vacancies Total time that vacancies exist including full time equivalent No.</b>	<b>Vacancies (as proportion of total posts in each category)</b>
Legislature	11		0
Municipal Manager	1		0
CFO	1		0
Other Sec 57	3		1
Middle Managers	7		2
Specialised Officers	34		15
Skilled Clerks	42		8
General workers	184		108
<b>Total</b>	<b>283</b>		<b>134</b>

<b>Turn-Over Rate</b>			
<b>Details</b>	<b>Total Appointments as of beginning of Financial Year No.</b>	<b>Termination during the financial year No</b>	<b>Turnover rate</b>
<b>2011/12</b>	<b>16</b>	<b>5</b>	<b>31.2%</b>
<b>2012/13</b>	<b>14</b>	<b>21</b>	<b>150%</b>
<b>2013/14</b>	<b>11</b>	<b>14</b>	<b>140%</b>

#### COMMENTS ON VACANCIES AND TURNOVER

The municipality has advertised and shortlisted on most of the vacant posts. The only pending process is to interview and appoint the successful applicants. It should, however, be noted that it has been a challenge for the municipality to attract highly skilled labour as it is located in a remote area. However, all the section 57 Managers, except for the Municipal Manager and Director Corporate Services who left during the current year, posts are now filled. The municipality has adopted a strategy to try and retain all the interns that comes through the internship programme. We have also been able to absorb all the temporary and casual workers from the last financial year.

### **B. MANAGING THE MUNICIPAL WORKFORCE**

#### **4.2 HR Policies and Plans**

The municipality has developed a comprehensive and all inclusive regulation compliant Human Resource Policy on which it was reviewed and adopted by council for Implementation. This policy includes the following Topics or Subject headings:

- Attraction and Retention
- Assignment of Employment Functions, Duties and Powers
- Disciplinary Code and Procedures
- Employee Wellness
- Employment Equity
- Exit Management
- HIV/Aids
- Human Resource and development
- Leave
- Occupational Health and Safety
- Official Housing
- Official Journey
- Official Working Hours and Overtime
- Payroll Deductions
- Recruitment, Selection and Appointment
- Remuneration Scales and Allowances
- Sexual Harassment
- Skills Development
- Smoking
- Uniform and Protective Clothing
- Labour Relations Matters

We continue to review and draft policies as depicted by our operations and new Accounting Standards (GRAP) released. The following are the policies were major changes occurred:

Municipality Policies:	Amendments Made for 2013/14:
<b>SCM Management Policy</b>	<p><b>Range of procurement process</b></p> <p><b>From:</b> 1. Three written price quotations for procurements of transaction value over R 3 000 up to R 30 000 (VAT included).</p> <p>2. Three formal written price quotations for procurements of transaction value over R 30 001 up to R 200 000 (VAT included).</p> <p>3. Three formal written price quotations for procurements of transaction value over R 30 001 up to R 200 000 (VAT included).</p> <p><b>To:</b> 1. Two written price quotation for procurements of a transaction value of up to R2 000 (VAT included).</p> <p>2. Three written price quotations for procurements of transaction value over R 2 001 up to R 30 000 (VAT included).</p> <p>3. Three formal written price quotations for procurements of transaction value over R 30 000 up to R 200 000 (VAT included).</p>
<b>Indigent Support Policy</b>	<p>The qualification for indigent support changed in accordance with the increased pensioners grants</p> <p>From: (R1140*2= R 2280)</p> <p>To: (R1260*2=R 2520)</p>
<b>Disaster Recovery Plan Policy</b>	<p>The disaster Recovery Plan was a draft policy.</p> <p>During the 2013/14 financial year the policy was reviewed (amended) and approved by council for Implementation</p>
<b>Payment Policy</b>	A payment policy which stipulates the payment method for services rendered for the municipality has been drafted.
<b>Rates Policy</b>	It was reviewed and approved.

### 4.3 Suspensions

Number and Period of Suspension				
Position	Nature of Alleged Misconduct	Date of Suspension	Details of Disciplinary Action taken or Status of Case and Reasons why not finalised	Date finalised
Procurement Clerk	1. Fraud of Ghost employee's 2. Taking Municipal property without concern.	03-Dec-13	Fraud Case opened, Internal disciplinary process and Dismissal	30-Apr-14
Admin Clerk	1. Fraud on customer accounts not credited as payments were made and Taking Municipal property without concern	01-Aug-13	Internal disciplinary process, the case in not yet finalised because the employee was on maternity leave.	Case in still pending because the employee was on maternity leave.
Corporate Services Director	1. Gross In-subornation 2. Failure to execute lawful instruction	17-Apr-13	The case was withdrawn because the employee resigned from the	The Employee resigned on the 28 of October 2013

			municipality	
Driver: Mayor	1.Gross In-subornation 2. Failure to execute lawful instruction	18-Jul-13	All Charges were dropped against the employee	14-Apr-14

Disciplinary Action Taken on Cases of Financial Misconduct			
Position	Nature of Alleged Misconduct and Rand value of any loss to the municipality	Disciplinary action taken	Date finalised.
Procurement Clerk	1.Fraud of Ghost employees ( R52 108,60) 2.Taking Municipal property without concern.	Fraud Case opened with the SAPS, Internal disciplinary process and Dismissal	30-Apr-14
Admin Clerk	1.Fraud on customers' accounts not credited as payments were made ( R 35 371,71) 2.Taking Municipal property without concern	Internal disciplinary process.	The Case is still on going, not yet finalised because the employee was on maternity leave.

COMMENTS ON SUSPENSIONS AND CASES OF FINANCIAL MISCONDUCT:

Number of misconduct cases reported is reducing due to training that was conducted to all employees in the municipality across the board and enhanced internal controls in place. Supervisors currently understand disciplinary code and procedures.

**4.4 Performance Rewards**

Performance Rewards by Gender					
Designation	Gender	Total number of employees in group	Total number of beneficiaries	Expenditure on reward Year 1 R'000	Proportion of beneficiaries within group %
Lower skilled (levels 1-2)	Female	None	None	None	None
	Male	None	None	None	None
Skilled (level 3-5)	Female	None	None	None	None
	Male	None	None	None	None
Highly skilled production (level 6-8)	Female	None	None	None	None
	Male	None	None	None	None
Highly skilled supervision (level 9-12)	Female	None	None	None	None
	Male	None	None	None	None
Senior management	Female	None	None	None	None

(levels 13-15)	Male	None	None	None	None
MM and S57	Female	None	None	None	None
	Male	None	None	None	None
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

COMMENTS ON PERFORMANCE REWARD:

Letsemeng Municipality is in process to develop Performance Management and Development System that will be applicable to employees in the lower rank than Section 57 Managers. Policy has been developed still waiting Rewarding guideline framework to be approved by province.

**C. CAPACITATING THE MUNICIPAL WORKFORCE**

**4.5 Skills Development and Training**

Number of Employees whose salaries were increased Due to their positions being upgraded.		
Beneficiaries	Gender	Total
Lower Skilled (Levels 1-2)	Female	None
	Male	None
Skilled (Levels 3-5)	Female	None
	Male	None
Highly Skilled production(Levels 6-8)	Female	None
	Male	None
Highly Skilled Supervision (Levels 9-12)	Male	None
	Female	None
Senior Management (Levels 13-16)	Female	None
	Male	None
MM and S56/57	Female	None
	Male	None

Employees Whose Salary Levels Exceed The Grade Determined By Job Evaluation				
Occupation	Number of employees	Job Evaluation level	Remuneration level	Reasons for deviation
None	None	None	None	None
COMMENTS: All positions are job evaluated considering responsibilities of the post (Job description). The municipality is also standard bench marking with municipalities in the same grade as ours not to deviate from the required standard or framework.				

Employees appointed to posts not approved				
Department	Level	Date of Appointment	No. appointed	Reason for appointment when no established post exist
None	None	None	None	None

<b>COMMENTS: Appointments are only done when posts are approved on Organogram/establishment.</b>				



## CHAPTER 5 – FINANCIAL PERFORMANCE

### A. STATEMENT OF FINANCIAL PERFORMANCE

#### Introduction

The municipality's performance during the year under review has been satisfactory, reasonably sound and is not experiencing any financial distress at the moment. To curb inflationary pressures, the municipality does invest excess funds and monitors projects closely to facilitate completion within targeted timeframes.

With the GRAP 24 (Presentation of Budget Information in Financial Statements) now effective, detailed analysis and comments for comparatives of Actual against Budgeted Amounts are shown in the financial statement, which forms part of this report.

#### 5.1 STATEMENTS OF FINANCIAL PERFORMANCE

Total recognised income was **R129 9555 753** more than the budgeted representing a positive variance of 19.65%. The highlights of income recognised are as follows:

- Budgeted service charges were about **R6 678 524** below the budgeted amounts. The variance was due to free basic services being budgeted for in service charges while the funding of these services is from equitable share.
- Actual property rates were about **R2 581 648** more than the budgeted amounts. No adjustment was done during the financial year.
- Investment revenue amounted to **R1 106 751** and the budgeted amount **R1 352 000** representing a 18.14% unfavourable variance. The municipality monitored its cash flow and invested a lot of the funds that were not immediately required to earn interest. Very little cash was kept in the current account.
- Operational grants recognised amounted to **R78 310 498** and the budgeted grants income was **R53 974 000** showing that not all DORA grants was recognised for budgeting.

Total expenditure incurred amounted to **R112 349 441** and the budgeted expenditure was **R110 870 389**. The variance was overall 1.33%. The highlights of the municipality's expenditures are:

- Depreciation & asset impairment amounted to **R19 166 678** while the budgeted amount was **R6 437 549**. The variance of was mainly caused by the under budgeting of the expenditure.

There was a saving of about **R19 648 100** on General Expenses as the total budgeted for Other Expenses were **R38 693 561** compared to the actual expenditure of about **R19 045 461**. This is mainly due to the cost cutting measures that are being implemented by the municipality.

## 5.2 STATEMENT OF FINANCIAL POSITION

Municipality continues to employ prudent measures. Though the revenue collection is low and we cannot fund our own project, our cash flow is still being managed efficiently. The key highlights are as follows:

Current assets favourable exceed current liabilities by **R4 833 326**. Of this positive variance, about **R15 032 834** is liquid assets as it is cash and cash equivalents.

Assets exceed liabilities by about **R623 560 938**.

Of the total liabilities balance of **R37 735 631**, about R5 416 151 relates to Post-Retirement Medical Aid benefits.

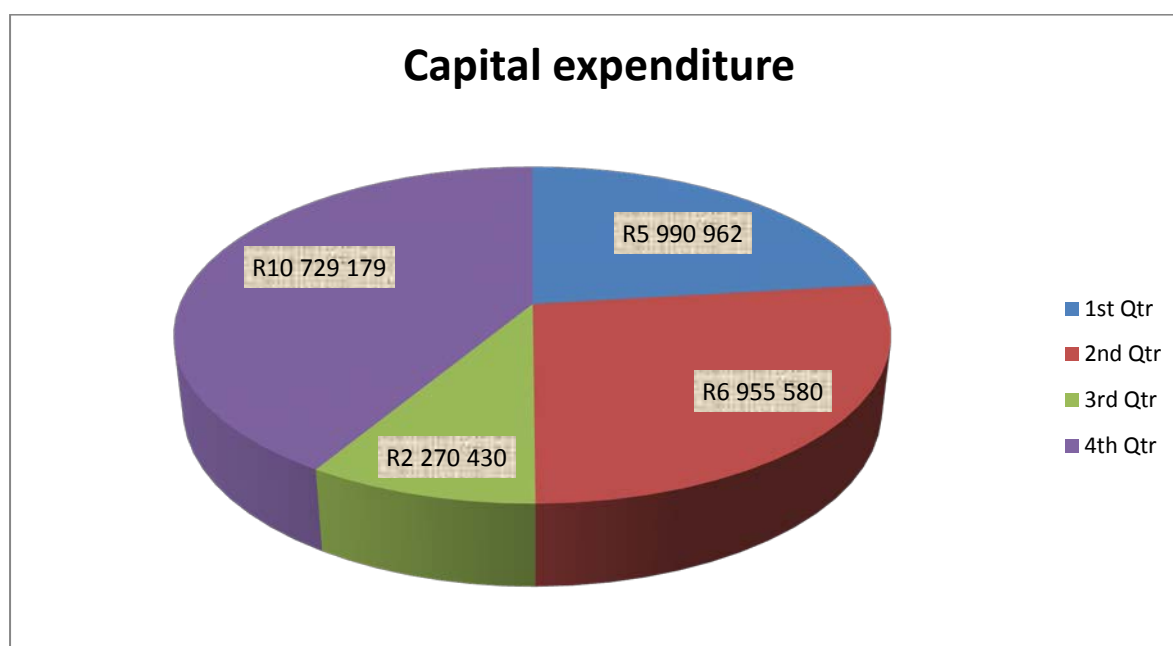
## 5.3 GRANTS

<b>PERFORMANCE ON CONDITIONAL GRANTS AS AT 30 June 2014</b>				
<b>GRANT NAME</b>	<b>GAZETTED: DoRA</b>	<b>YTD TRANSFER</b>	<b>ACTUAL SPENDING</b>	<b>UNSPENT TRANSFER</b>
Finance Management Grant	1 650 000	1 650 000	1 650 000	0
Municipal System Improvement Grant	890 000	890 000	890 000	0
Municipal Infrastructure Grant	20 972 000	20 972 000	20 236 372	735 628
Expanded Public Work Programme	1 000 000	1 000 000	2 146 747	0
Municipal Water Infrastructure Grant	13 334 000	13 334 000	2 292 181	11 041 819
Accelerated Community Development Programme	1 865 000	1 865 000	1 460 625	404 475
<b>Total</b>	<b>39 711 000</b>	<b>39 711 000</b>	<b>28 675 925</b>	<b>12 181 922</b>

## 5.4 ASSET MANAGEMENT

The municipality has approved the capital expenditure budget of R 44.8 million and there was no adjustment after the mid-year assessment in January 2014. The capital expenditure incurred for the period under review (4<sup>th</sup> quarter) amounts to R10.7 million which is approximately 23.9% of the adjustment budget. The expenditure was funded as follows:

Own funds: R 892 326  
Grants: R 9 836 853



The graph above shows the movement in the capital spending of the municipality. There was a spending of R5.9 million in the first quarter, R6.9 million in the second quarter, R2.2 million in the third quarter and R10.7 million in the 4<sup>th</sup> quarter.

The spending in the fourth quarter increased with R8.5 million compared to the previous quarter.

## 5.4 FINANCIAL RATIOS BASED ON FINANCIAL KEY PERFORMANCE INDICATORS

INDICATOR	2014	2013
Surplus / (Deficit) before Appropriations	17 606 313	5 966 172
Surplus / (Deficit) at the end of the Year	623 560 938	616 468 342
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	24.02%	27.06%
Remuneration of Councillors	2.76%	3.25%
Depreciation and Amortisation	17.06%	17.61%
Impairment Losses	4.84%	4.76%
Repairs and Maintenance	3.91%	2.74%
Interest Paid	0.51%	1.29%
Bulk Purchases	20.29%	18.26%
Contracted Services	4.13%	3.59%
Grants and Subsidies Paid	5.54%	2.53%

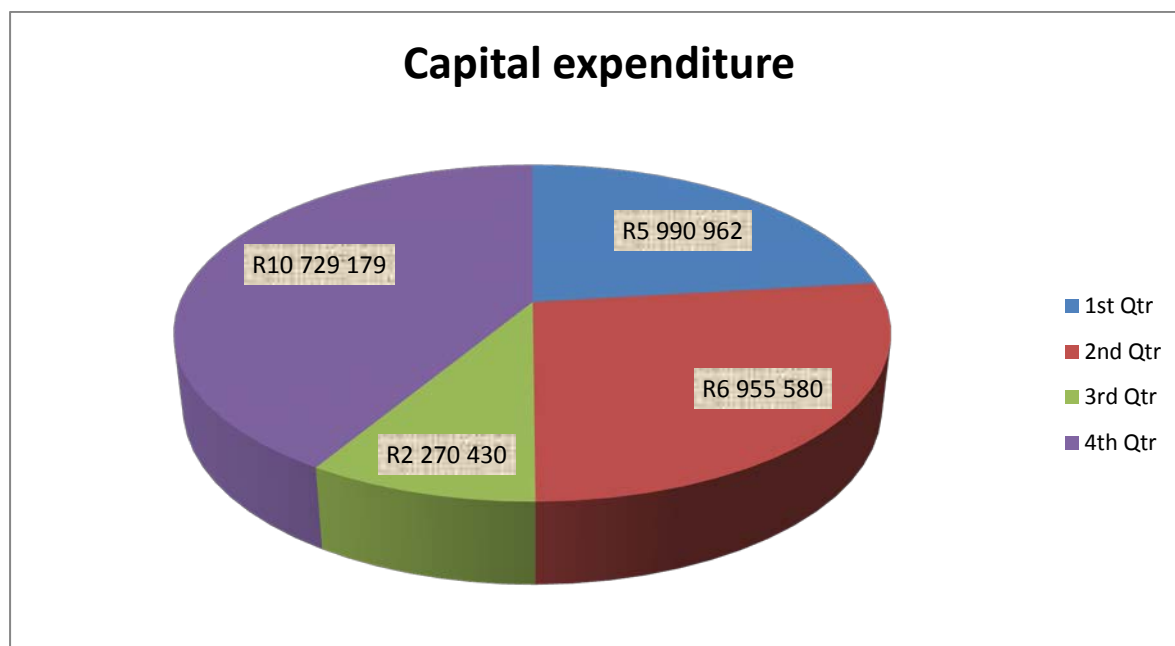
General Expenses	16.95%	18.92%
<b>INDICATOR</b>	<b>2014</b>	<b>2013</b>
<b>Financial Position</b>		
Debtors Management:		
Outstanding Debtors to Revenue	12.04%	5.51%
Liquidity Management:		
Liquidity Ratio	0.61	0.15

## B. SPENDING AGAINST CAPITAL BUDGET

### 5.5 CAPITAL EXPENDITURE

The municipality has approved the capital expenditure budget of R 44.8 million and there was no adjustment after the mid-year assessment in January 2014. The capital expenditure incurred for the period under review (4<sup>th</sup> quarter) amounts to R10.7 million which is approximately 23.9% of the adjustment budget. The expenditure was funded as follows:

Own funds: R 892 326  
Grants: R 9 836 853



The graph above shows the movement in the capital spending of the municipality. There was a spending of R5.9 million in the first quarter, R6.9 million in the second quarter, R2.2 million in the third quarter and R10.7 million in the 4<sup>th</sup> quarter.

The spending in the fourth quarter increased with R8.5 million compared to the previous quarter.

## 5.6 SOURCES OF FINANCE

OTHER INCOME AS AT 30 JUNE 2014											
Revenue Source	Adjusted Budget	Total Actual 1st Quarter	Total Actual 2nd Quarter	Total Actual 3rd Quarter	April '14	May '14	June '14	Total Actual		Total Year-to-date	
								R	%	R	%
Rent of facilities and equipment	423 999	38 898	50 009	17 304	3 440	19 454	8 345	31 239	7%	137 450	32%
Interest earned - external investments	1 352 058	43 935	-	-	-	-	-	-	0%	43 935	3%
Dividends received	25 000	3 059	-	-	-	-	-	-	0%	3 059	12%
Fines	87 623	11 230	13 200	14 580	7 510	9 760	3 250	20 520	23%	59 530	68%
Licenses and permits	5 305	-	877	175	-	-	-	-	0%	1 052	20%
Grants and subsidies received - operating	53 974 000	23 954 000	300 000	29 720 000	-	-	-	-	0%	53 974 000	100%
Other revenue	1 780 283	605 026	172 999	605 026	106 779	150 729	97 930	355 438	20%	1 738 489	98%
<b>Total</b>	<b>57 648 228</b>	<b>24 656 148</b>	<b>537 085</b>	<b>30 357 085</b>	<b>117 729</b>	<b>179 943</b>	<b>109 525</b>	<b>407 197</b>	<b>1%</b>	<b>55 957 515</b>	<b>97%</b>

Rental of facilities and equipment is at 7% for the period under review and 32% year-to-date which is still not satisfactory, the renting of equipment and facilities did not incur as expected, there were few rentals made for the period under review.

Interest earned- external investment- there were no investments made for the period under review there no interest was accumulated.

Dividends received are at 0%- There were no dividends received for the period under review. We only receive Dividends during the first quarter from OVK and Senwes.

Licenses and permits are at 0% - there were no licenses and permits paid for the period under review, people did not apply for licenses and permits.

Fines are at 23% of the budgeted amount and the low rate can be attributed to few fines being issued. Grants and subsidies received are at 100%, all the grants expected were received for the period under review.

## 5.7 CAPITAL SPENDING ON THE LARGEST PROJECTS

### TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED

TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED 2013/2014				
Asset 1				
Name	Multipurpose Centre in Koffiefontein			
Description	Building			
Asset Type	Land and buildings			
Key Staff Involved	Director: Technical – Mr. N. Gaelejwe			
Staff Responsibility	Project Management Unit Technician –Mr. M Tsoene			
Asset Value	2010/2011	2011/2012	2012/2013	2013/2014
	-	-	-	R 17 930 000.00
Capital Implications	MIG			
Future Purpose Of Asset	Hall and offices			
Policies to Manage Asset	MFMA and GRAP			

<b>Asset 2</b>				
Name	Road Structures - Koffiefontein			
Description	704 From Chris Herbs To 48			
Asset Type	Infrastructure: Road Surface			
Key Staff Involved	Director: Technical – Mr. N. Gaelejwe			
Staff Responsibility	Project Management Unit Technician – Mr.M Tsoene			
	2010/2011	2011/2012	2012/2013	2013/2014
Asset Value	-	R 5 089 837.06	R 4 479 056.62	R 4 377 259.88
Capital Implications	Internal funding			
Future Purpose Of Asset	Road Surface			
Policies to Manage Asset	MFMA and GRAP			
<b>Asset 3</b>				
Name	3.3 Km Paved Road in Jacobsdal			
Description	Pavement			
Asset Type	Road InfrastructureAsset			
Key Staff Involved	Director: Technical – Mr. N.Gaelejwe			
Staff Responsibility	Project Management Unit Technician – Mr. M Tsoene			
	2010/2011	2011/2012	2012/2013	2013/2014
Asset Value	-	-	-	R 17 841 085.36
Capital Implications	MIG			
Future Purpose Of Asset	Pavement			
Policies to Manage Asset	MFMA and GRAP			

## 5.8 SERVICE CHARGES

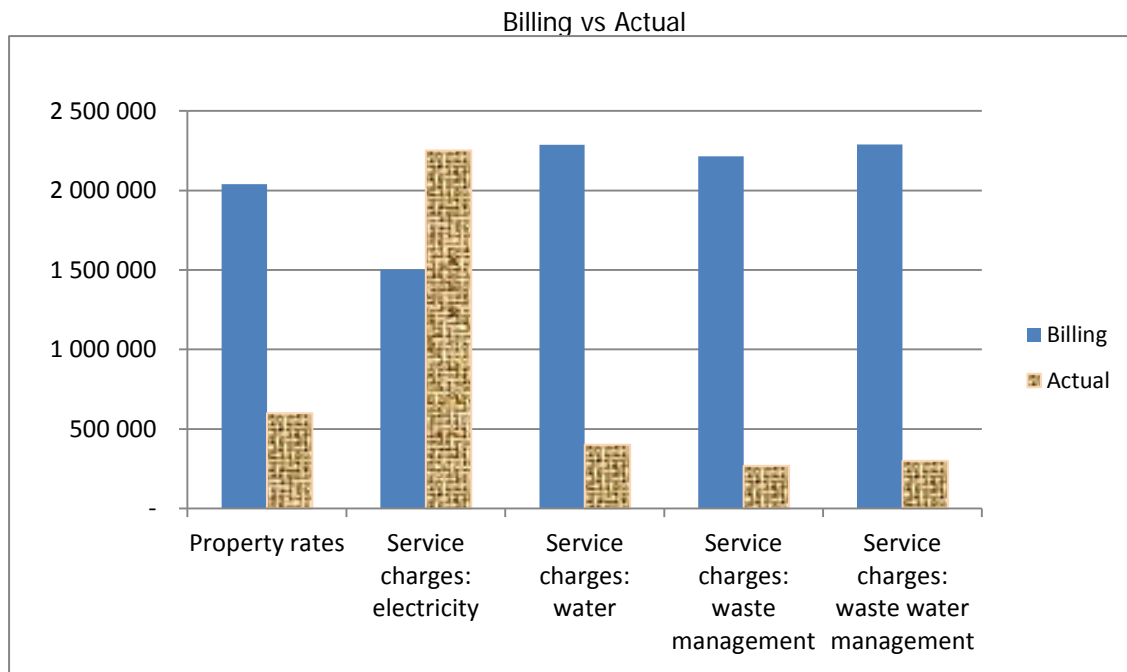
Council approved an operating budget of R109 million for the 2013-14 financial year. The budget for operating income was not adjusted after the mid-year budget assessment was done during January 2014.

### 5.8.1 Services charges and rates

The table below shows the budget performance on the adjustment budget of R50.9 million. A total of R10.3 million was billed for the period under review which is 20% of the adjustment budget.

PROPERTY RATES AND SERVICE CHARGES AS AT 30 JUNE 2014											
Revenue Source	Adjusted Budget	Quarter 1	Quarter 2	Quarter 3	April 14	May 14	June 14	Total Billing for 4th quarter		Year to date	
		Billed	Billed	Billed	Billed	Billed	Billed	R	%	Billing R	Billing %
Property rates	6 739 162	2 472 798	2 428 609	2 449 482	818 167	654 823	566 863	2 039 853	30%	9 390 742	139%
Service charges: electricity	22 641 828	3 772 890	3 558 686	3 976 898	543 175	407 554	551 754	1 502 483	7%	12 810 957	57%
Service charges: water	7 695 500	1 825 603	1 781 985	1 793 108	777 953	687 154	820 960	2 286 067	30%	7 686 763	100%
Service charges: waste management	6 939 000	1 938 090	1 940 386	1 938 365	738 318	738 406	738 768	2 215 492	32%	8 032 333	116%
Service charges: waste water management	6 945 811	1 743 653	1 974 851	2 001 902	762 958	763 046	763 568	2 289 572	33%	8 009 978	115%
<b>Total</b>	<b>50 961 301</b>	<b>11 753 034</b>	<b>11 684 517</b>	<b>12 159 755</b>	<b>3 640 571</b>	<b>3 250 983</b>	<b>3 441 913</b>	<b>10 333 467</b>	<b>20%</b>	<b>45 930 773</b>	<b>90%</b>

The year-to-date billing amounts to R45.9 million which is 90% of the budget.



Property rates collected amounts to R4.8 million which is 238% of the billed amount for the quarter under review, while the amount for electricity equals to R6 million which is 402% of the billed income, the reason why actual is more than billed is due to the pre-paid electricity that is sold.

Water income collection amounts to R1.2 million which is 55% of the billed amount. The collection rate at water revenue is not satisfactorily. Poor payment rates are evident within waste management and waste water management services which are 41% and 42% respectively. There were no new connections made between April and June 2014 and there were 527 accounts disconnected during that period.

PROPERTY RATES AND SERVICE CHARGES AS AT 30 JUNE 2014												
Revenue Source	Year To Date Billing	Total billing Quarter 4	Total Actual Quarter 1	Total Actual Quarter 2	Total Actual Quarter 3	Apr '14 Actual	May '14 Actual	Jun'14 Actual	Total Actual		Year-to-Date Actual	
									R	%	R	%
Property rates	9 390 742	2 039 853	1 116 501	861 638	2 512 838	1 931 995	2 316 431	600 527	4 848 953	238%	9 339 930	99%
Service charges: Electricity	12 810 957	1 502 483	3 771 759	3 558 686	3 976 535	1 388 686	2 392 684	2 252 308	6 033 678	402%	17 340 658	135%
Service charges: water	7 686 763	2 286 067	682 908	762 486	915 793	330 427	519 589	402 140	1 252 156	55%	3 613 343	47%
Service charges: waste management	8 032 333	2 215 492	450 362	475 994	614 694	257 840	389 486	269 183	916 509	41%	2 457 559	31%
Service charges: waste water management	8 009 978	2 289 572	490 552	514 427	683 095	264 541	407 395	300 712	972 648	42%	2 660 722	33%
<b>Total</b>	<b>45 930 773</b>	<b>10 333 467</b>	<b>6 512 082</b>	<b>6 173 231</b>	<b>8 702 955</b>	<b>4 173 489</b>	<b>6 025 585</b>	<b>3 824 870</b>	<b>14 023 944</b>	<b>136%</b>	<b>35 412 212</b>	<b>77%</b>

Evidence depicted by the above graph that despite the Municipality being able to bill for services rendered at acceptable rates, the collection rates are not satisfactorily. The collection rates that are acceptable are on the electricity services and property rates.

### 5.8.2 Indigents Households

The indigents on the municipality's system have not been updated since 2010 financial period; the municipality has embarked on an indigent registration process for the next financial period 2014-15 therefore going forward there will be an accurate number of indigents registered on the system.

### 5.8.3 Other income

The approved budget for other income was budgeted at R57.6 million. Subsequent to the mid-year budget assessment there were no adjustments. The year to date collection is at 97% of the revenue budget and has increased with 1% compared to the previous quarter.

OTHER INCOME AS AT 30 JUNE 2014											
Revenue Source	Adjusted Budget	Total Actual 1st Quarter	Total Actual 2nd Quarter	Total Actual 3rd Quarter	April '14	May '14	June '14	Total Actual		Total Year-to-date	
								R	%	R	%
Rent of facilities and equipment	423 959	38 898	50 009	17 304	3 440	19 454	8 345	31 239	7%	137 450	32%
Interest earned - external investments	1 352 058	43 935	-	-	-	-	-	-	0%	43 935	3%
Dividends received	25 000	3 059	-	-	-	-	-	-	0%	3 059	12%
Fines	87 623	11 230	13 200	14 580	7 510	9 760	3 250	20 520	23%	59 530	68%
Licenses and permits	5 305	-	877	175	-	-	-	-	0%	1 052	20%
Grants and subsidies received - operating	53 974 000	23 954 000	300 000	29 720 000	-	-	-	-	0%	53 974 000	100%
Other revenue	1 780 283	605 026	172 999	605 026	106 779	150 729	97 930	355 438	20%	1 738 489	98%
<b>Total</b>	<b>57 648 228</b>	<b>24 656 148</b>	<b>537 085</b>	<b>30 357 085</b>	<b>117 729</b>	<b>179 943</b>	<b>109 525</b>	<b>407 197</b>	<b>1%</b>	<b>55 957 515</b>	<b>97%</b>



Rental of facilities and equipment is at 7% for the period under review and 32% year-to-date which is still not satisfactory, the renting of equipment and facilities did not incur as expected, there were few rentals made for the period under review.

Interest earned- external investment- there were no investments made for the period under review there no interest was accumulated.

Dividends received are at 0%- There were no dividends received for the period under review. We only receive Dividends during the first quarter from OVK and Senwes.

Licenses and permits are at 0% - there were no licenses and permits paid for the period under review, people did not apply for licenses and permits.

Fines are at 23% of the budgeted amount and the low rate can be attributed to few fines being issued. Grants and subsidies received are at 100%, all the grants expected were received for the period under review.

#### 5.8.4 Debtors Age Analysis

The debtors of the municipality arise from the households, government, business and other. These debtors arise from the following services, water, electricity, sewerage and refuse removal.

##### 5.9.4.1 Debtors per service

The table below shows the total outstanding debtors of the municipality as at 30 June 2014 which was standing at R41.9 million. As much as the municipality has not accounted for write-offs, the amount is quite significant.

DEBTORS AGE ANALYSIS BY SERVICE AS AT JUNE 2014										
Details	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121-150 Days	151-180 Days	181Days- 1 year	Over 1 year	Total	%
Water Tariffs	523 957	300 697	409 722	302 991	276 488	260 379	1 540 543	6 290 490	9 905 266	24%
Electricity Tariffs	176 400	124 274	108 108	91 399	114 652	54 306	431 742	1 271 266	2 372 148	6%
Rates (Property Rates)	420 145	457 411	376 059	387 494	399 817	386 336	2 284 666	6 169 957	10 881 883	26%
Sewerage / Sanitation Tariffs	250 490	247 650	241 944	266 903	251 701	254 122	1 554 191	5 814 011	8 881 011	21%
Refuse Removal Tariffs	230 498	232 886	230 419	255 390	252 329	251 602	1 532 882	5 719 849	8 705 855	21%
Housing (Rental Income)	6 950	7 047	6 972	7 500	7 219	7 014	42 906	637 066	722 674	2%
Other	93	2 001	931	62	208	61	3 768	19 820	26 944	0%
<b>Total debtor per service</b>	<b>1 608 532</b>	<b>1 371 965</b>	<b>1 374 155</b>	<b>1 311 740</b>	<b>1 302 414</b>	<b>1 213 820</b>	<b>7 390 698</b>	<b>25 922 458</b>	<b>41 495 782</b>	<b>100%</b>

##### 5.9.4.2 Debtors per customer group

DEBTORS AGE ANALYSIS BY CUSTOMER GROUP AS AT JUNE 2014										
Details	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121-150 Days	151-180 Days	181Days- 1 year	Over 1 year	Total	%
Government	157 359	123 820	172 191	111 582	95 495	103 095	640 282	2 980 345	4 384 169	11%
Business	453 277	401 207	288 848	304 219	319 000	275 918	1 667 586	4 887 130	8 597 185	21%
Households	997 896	846 741	913 080	895 939	887 919	834 807	5 082 647	18 053 198	28 512 227	69%
Other	0	197	36	0	-	-	182	1 785	2 201	0%
<b>Total By Customer Group</b>	<b>1 608 532</b>	<b>1 371 965</b>	<b>1 374 155</b>	<b>1 311 740</b>	<b>1 302 414</b>	<b>1 213 820</b>	<b>7 390 698</b>	<b>25 922 458</b>	<b>41 495 782</b>	<b>100%</b>

The above table shows that household consumers do not pay for services rendered to them. This poses a serious threat on the financial sustainability and overall provision of services by the municipality as households form a major part of the consumers.

Current debtors are standing at R1.6 million, debtors between 31 – 60 days amount to R1.3 million, debtors between 61-90 days amount to R1.3 million, debtors between 91-120 days amount to R1.3 million, debtors between 121-150 days amount to R1.3 million, debtors between 151-180 days amount to R1.2 million, debtors between 181-365 days amount to R7.3 million and over a year amounts to R25.9 million.

## C. CASHFLOW MANAGEMENT AND INVESTMENTS

### 5.9 CASHFLOW

	Note	Actual	
		2014 R	2013 Restated R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Property Rates		5 701 352	4 852 808
Government Grant and Subsidies		90 145 100	78 224 229
Public Contributions and Donations		-	1 934 147
Service Charges		27 685 604	20 278 126
Interest Received		3 717 802	3 427 176
Dividends Received		3 059	10 607
Other Receipts		3 336 487	(838 693)
<b>Payments</b>			
Employee Related Costs		(26 518 885)	(33 206 192)
Remuneration of Councillors		(3 096 157)	(3 550 594)
Interest Paid		(575 250)	(1 410 835)
Suppliers Paid		(32 097 533)	(28 867 870)
Other Payments		(34 186 090)	(19 367 063)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>40</b>	<b>34 115 491</b>	<b>21 485 846</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment		(20 080 644)	(22 918 824)
Purchase of Intangible Assets		(114 946)	(143 223)
Decrease / (Increase) in Non-current Investments		(713 248)	(3 572 250)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(20 908 838)</b>	<b>(26 634 297)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Borrowings		(148 020)	(1 315 757)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(148 020)</b>	<b>(1 315 757)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>13 058 632</b>	<b>(6 464 207)</b>
Cash and Cash Equivalents at Beginning of Period		1 974 203	8 438 410
Cash and Cash Equivalents at End of Period	<b>6</b>	<b>15 032 834</b>	<b>1 974 203</b>

## 5.10 BORROWING AND INVESTMENTS

Letsemeng municipality is highly dependent on grants to finance its operating and capital activities. Grant income constitutes on average 68% of income. Though services charges income constitutes on average 23% of total income recognised, collection rate continues to be a challenge as the significant number of the community members are indigent. This is evidenced by a relatively high provision of bad debts. The municipality therefore invests grant funds and its collections not immediately required with registered institutions.

## 5.11 SUPPLY CHAIN MANAGEMENT

The MFMA sec 62(1)(f)(iv) requires the Accounting Officer of a municipality to implement the supply chain management policy of the municipality and take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices. Furthermore, the Accounting Officer is required to report to the Mayor about the implementation of the supply chain management policy.

### 5.11.1 SCM UNIT

The SCM Unit is under staffed and as such it is not effective in terms of the implementing the Supply Chain Management policy and other applicable legislations / regulations. The post of Supply Chain Management Practitioner was advertised and still needs to be filled. This unit requires Officials with knowledge of the Supply Chain Management regulations and other related regulations.

## 5.12 BID COMMITTEES

The bid committees consists of bid specification committee, bid evaluation committee and bid adjudication committee. The most functioning committees are the bid evaluation committee and bid adjudication committee. The bid evaluation committee consists of 3 members and evaluation committee consists of 4 members.

The evaluation committee evaluate all the tenders/proposals submitted to the municipality for specific services and send recommendation to the adjudication committee; the adjudication committee assess the recommendation provided and send the final recommendation to the Accounting Officer.

## 5.13 CURRENT PROJECTS/TENDERS

**The following projects listed below are currently running at the Municipality. Most of them are multi-year projects that were awarded in the previous financial year:**

- a) Compilation of the General Valuation Roll 2013/14 which is executed by Ndlala Mass valuation to the value of R1.4 million. The service provider will be the Municipal Value till 30 June 2017.
- b) Co-sourcing of Internal Audit which is executed by Thebeyaka Consulting to the value of R1.3 million.
- c) Construction of 0.8km access paved road and storm water in Petrusburg-Bolokanang executed by Jorian Construction CC to the value of R6.1 million the Consulting engineers for this project is Bovicon Consulting Engineers.
- d) Upgrading of Sports facility in Luckhoff which is executed by Powertek to the value of R6.8 million. The Consulting Engineers for this project is Phethogo Consulting engineers.

- e) MWIG Upgrading of Jacobsdal Water Treatment Works which is executed by Sedibeng as the implementing agent to the value of R6.5 million.
- f) MWIG Upgrading of Luckhoff Water Treatment Works which is executed by Sedibeng as the implementing agent to the value of R5, 4 million.
- g) MWIG Upgrading of Koffiefontein Bulk Water Supply and Reticulation of 180 stands which is executed by Sedibeng as the implementing agent to the value of R1.5 million.
- h) ACIP Upgrading of Raw Water Canal which is executed by Sedibeng as the implementing agent to the value of R3 million.

**The following projects were COMPLETED during the course of the 2013/14 financial year:**

- a) Multi-Purpose Community Centre which was executed by Freelance Construction and the Consulting Engineers for this project is Worley Parsons to the value of R21 million.
- b) Phase 1 Paving of access road in Jacobsdal / Ratanag which was executed by Nomad Construction to the value of R6 million. Bovicon Consulting Engineers have been appointed as the consultants for the project.
- c) Phase 2 Paving of access road in Jacobsdal / Ratanag which was executed by Skhokho Civils and Urban Projects JV to the value of R7, 7 million. Bovicon Consulting Engineers have been appointed as the consultants for the project.
- d) Upgrading of Sports facility in Luckhoff which was executed by Set-Mak Service Contractors has been terminated due to underperformance. Phethogo Consulting were appointed as the consultants for the project. The municipality appointed Powertek to continue with the project.
- e) Instalation of 10 High Mast Lights for Letsemeng Town which was executed by Ikageng Electrical Contractors to the value of R3, 9 million and consultants were Dihlase Consulting.

## CHAPTER 6

### 6.1 REPORT OF THE AUDITOR-GENERAL

#### REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE LETSEMENG LOCAL MUNICIPALITY

#### REPORT ON THE FINANCIAL STATEMENTS

##### Introduction

1. I was engaged to audit the financial statements of the Letsemeng Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2014, the statements of financial performance, changes in net assets, cash flows and comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

##### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of statements that are free from material misstatement, whether due to fraud or error.

##### Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

##### Basis for disclaimer of opinion

##### Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment. Management could not provide me with supporting documentation to confirm how property, plant and equipment had been assessed for impairment and how the useful lives of the assets had been reassessed. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to property, plant and equipment stated at R613 181 108 in note 7 to the financial statements.
5. In addition, the municipality did not recognise investment property in terms of SA Standards of GRAP, GRAP 16 *Investment property*. Investment property was incorrectly included in land and buildings, resulting in property, plant and equipment being overstated and investment property being understated. I was unable to determine the

full extent of the misstatement, as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

### **Service charges**

6. I was unable to obtain sufficient appropriate audit evidence regarding revenue from the sale of water and electricity included in the service charges income, as the meter reading books were incomplete and inaccurate. Management could also not provide sufficient appropriate audit evidence to substantiate the use of average readings during the year. I was unable to confirm revenue from water and electricity by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to revenue from water and electricity stated at R22 066 616 (2013: R18 504 897) in note 23 to the financial statements.
7. I was unable to obtain sufficient appropriate audit evidence regarding service charges for refuse and sewerage income, due to the municipality billing for properties not on the valuation roll. In addition, incorrect tariffs were used for billing refuse and sewerage, while certain properties receiving services were not billed. I was unable to confirm revenue from refuse and sewerage by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to revenue from refuse and sewerage stated at R15 477 860 in note 23 to the financial statements.

### **Receivables from exchange transactions**

8. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for receivables from exchange transactions, due to management not providing sufficient supporting information for the interest raised on outstanding debtor balances. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R8 582 444 in note 3 to the financial statements.

### **Receivables from non-exchange transactions**

9. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for receivables from non-exchange transactions, due to management not providing sufficient supporting information for the interest raised on outstanding debtor balances. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R3 709 782 in note 4 to the financial statements.

### **General expenses**

10. I was unable to obtain sufficient appropriate audit evidence for general expenses as the municipality passed adjustments to the financial statements that could not be supported. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to general expenses stated at R19 045 461 in the financial statements was necessary.
11. In addition the municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 *Presentation of financial statements*. Misclassifications were identified in

general expenses, which should have been capitalised to property, plant and equipment. Consequently, general expenses were overstated and property, plant and equipment was understated by R2 758 765. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

### **Grants and subsidies paid**

12. The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 *Presentation of financial statements*. Misclassifications were identified in grants and subsidies paid, which should have been capitalised to property, plant and equipment. Consequently, grants and subsidies paid were overstated and property, plant and equipment was understated by R2 167 882. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

### **Repairs and maintenance**

13. I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance as the municipality passed adjustments to the financial statements that could not be supported. I was unable to confirm repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustment relating to repairs and maintenance stated at R4 393 457 in the financial statements was necessary.
14. In addition the municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 *Presentation of financial statements*. Misclassifications were identified in repairs and maintenance, which should have been capitalised to property, plant and equipment. Consequently, repairs and maintenance were overstated and property, plant and equipment was understated by R1 048 110. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

### **Contracted services**

15. The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 *Presentation of financial statements*. Misclassifications were identified in contracted services, which should have been capitalised to property, plant and equipment. In addition, there were duplicate invoices expensed for contracted services. Consequently, contracted services were overstated by R1 034 117; property, plant and equipment was understated by R695 955; and other creditors were overstated by R338 162. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

### **Bulk purchases**

16. The municipality did not have adequate systems to ensure that classes of operating expenditure were classified correctly in terms of SA Standards of GRAP, GRAP 1 *Presentation of financial statements*. Misclassifications were identified in bulk purchases paid, which should have been expensed to general expenses. In addition, the same invoices were captured in both the current and the prior year, while input



value-added tax (VAT) was not claimed on some invoices of bulk purchases in the current year. Consequently, bulk purchases were overstated by R1 018 233; general expenses were understated by R564 544; and the VAT receivable was understated by R142 903. It was impracticable for me to determine which other account was affected by the duplicate invoices recognised for bulk purchases, due to inadequate systems. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

### **Payables from exchange transactions**

17. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for other creditors included in payables from exchange transactions, due to the status of the accounting records and a lack of reconciliations. I was unable to confirm other creditors by alternative means. Consequently, I was unable to determine whether any adjustment to other creditors stated at R1 106 471 in note 12 to the financial statements was necessary.

### **Irregular expenditure**

18. The prior year irregular expenditure was disclosed inclusive of VAT, resulting in irregular expenditure being overstated. I was unable to determine the full extent of the misstatement, as it was impracticable to do so. This had a consequential impact on the current year closing balance of irregular expenditure of R88 064 441 (2013: R67 665 993) in note 42.3 being overstated.

### **Cash flow statement**

19. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement and related notes for the current and prior years, due to the material effect of misstatements and limitations placed on my audit of various components of the financial statements. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether adjustments were necessary to the amounts disclosed in the cash flow statement.

### **Aggregation of immaterial uncorrected misstatements**

20. I was unable to obtain sufficient appropriate audit evidence regarding the following items making up the statement financial position, which had a cumulative effect on the financial statements:
- Unspent conditional grants of R417 171 as included in the disclosed balance of R13 713 326
  - Inventory of R373 198 (2013: R373 238) as included in the disclosed balance of R373 198 (2013: R373 198)

I was unable to confirm these amounts by alternative means. As a result, I was unable to determine whether any adjustment to these items was necessary.



### **Disclaimer of opinion**

21. 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 matters**

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

### **Material losses**

23. As disclosed in note 43.7 to the financial statements, material water and electricity losses of R5 539 563 (2013: R8 986 973) were incurred as a result of tampered meters and illegal connections.

### **Material impairments**

24. As disclosed in note 3 to the financial statements, a provision for the impairment of debtors amounting to R23 598 777 (2013: R19 230 745) was made with regard to consumer debts amounting to R32 181 221 (2013: R23 456 537).

### **Unauthorised expenditure**

25. As disclosed in note 42.1 to the financial statements, the municipality incurred unauthorised expenditure of R16 746 453 (2013: R5 379 867) during the year under review, due to overspending of the budget.

### **Material underspending of conditional grants**

26. As disclosed in note 13 to the financial statements, the municipality materially underspent its conditional grants by R13 713 326 (2013: R1 878 724), due to instability in management.

### **Restatement of corresponding figures**

27. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

### **Additional matter**

28. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

29. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

30. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

31. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Development priority 3: technical department on pages x to x

32. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

33. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

34. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

35. The material findings in respect of the selected development priority are as follows:

### **Development priority 3: technical department**

#### **Usefulness of reported performance information**

36. The FMPPI requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. All (100%) of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 56% of the indicators were not verifiable.

This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

## **Additional matter**

37. I draw attention to the following matter:

### **Achievement of planned targets**

38. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected development priority reported in paragraph 34 of this report.

### **Compliance with legislation**

39. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Strategic planning and performance management**

40. The adopted integrated development plan (IDP) did not reflect and identify a financial plan, the key performance indicators and targets, as required by sections 26 and 41 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) as well as municipal planning and performance management regulation 2(1)(c).

41. The municipality did not give effect to its IDP or conduct its affairs in a manner that was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and municipal planning and performance management regulation 6.

42. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.

### **Human resource management and compensation**

43. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate the performance of staff, in contravention of section 67(d) of the MSA.

### **Budgets**

44. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

### **Financial statements and annual reports**

45. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material

misstatements of non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the supporting records that could not be provided resulted in the financial statements receiving a disclaimed audit opinion.

### **Audit committee**

46. The audit committee was not constituted in the manner required by section 166(4)(a) of the MFMA. One member of the audit committee resigned during the year and another member's contract was not renewed. This resulted in the audit committee not having the required minimum of three members. The latest audit committee member position became vacant in March 2014.
47. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness, and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
48. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by municipal planning and performance management regulation 14(4)(a)(i).
49. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
50. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

### **Procurement and contract management**

51. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, contrary to supply chain management (SCM) regulation 17(a) and (c).
52. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). One deviation was approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
53. Contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the *Preferential procurement regulations*.
54. Bid adjudication was not always done by committees composed in accordance with SCM regulation 29(2).
55. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).

56. Contracts and quotations were awarded to bidders based on preference points that had not been calculated in accordance with the requirements of the PPPFA and its regulations.
57. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
58. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulation 18.
59. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

### **Expenditure management**

60. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
61. An effective system of expenditure control, including procedures for the approval and authorisation of funds, was not in place, as required by section 65(2)(a) of the MFMA.
62. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
63. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.

### **Revenue management**

64. An adequate management, accounting and information system was not in place to account for revenue, as required by section 64(2)(e) of the MFMA.
65. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
66. Sufficient appropriate audit evidence could not be obtained that revenue due to the municipality had been calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
67. Sufficient appropriate audit evidence could not be obtained that accounts for municipal tax and service charges had been prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
68. Sufficient audit evidence could not be obtained that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

## **Asset management**

69. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

## **Liability management**

70. An adequate management, accounting and information system was not in place to account for liabilities, as required by section 63(2)(a) of the MFMA.
71. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

## **Consequence management**

72. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by sections 32(2)(a)(ii) of the MFMA.

## **Environmental management**

73. The municipality operated three waste disposal sites without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008).

## **Internal control**

74. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

## **Leadership**

75. The leadership of the municipality did not consider the impact that instability and critical vacancies in key management positions would have on the financial administration of the municipality, which resulted in the municipality obtaining a further regression in the audit outcome.
76. The acting accounting officer and other senior management members were not actively involved with the promotion of daily controls and compliance with policies and procedures. Officials within the municipality were not held accountable for not performing their job functions and there were no consequences for those officials that transgressed policies and procedures. Officials did not have the required competence and skills to perform their job functions, which led to material misstatements being identified through the audit process.

## **Financial and performance management**

77. Management did not ensure that officials performed daily, weekly and monthly reconciliations and updated underlying records and registers in a timely manner. There was no proper documentation protocol, which resulted in there being significant scope limitations. Effective performance systems, processes and procedures as well as the management thereof had not been adequately developed and implemented.

### **Governance**

78. The acting accounting officer did not ensure that senior managers implemented internal and external audit recommendations in a timely manner. The audit committee was not properly constituted and was therefore not available to advise and assist management with the review of the financial statements, annual performance report and annual report.

Bloemfontein

30 November 2014



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

*Auditing to build public confidence*

## 6.1 Audit Recovery Plan based on the Auditor General's Report (30 June 2013)

### Audit Recovery Plan based on the Auditor General's Report (30 June 2013)

Section	Audit Finding	Responsibility	Remedial Action
<b>AUDIT REPORT MATTERS</b>			
Service Charges	I was unable to obtain sufficient appropriate audit evidence regarding revenue from the sale of water and electricity included in the service charges income as the meter reading books were incomplete and inaccurate. I was unable to confirm revenue from sale of water and electricity by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from sale of water stated at R4 466 907 and sale of electricity stated at R14 037 990 in note 23 to the financial statements were necessary.	Budget and Treasury Office.	New water metres to be installed and also new houses to be installed too. Meter readers to verify and check all the obsolete metres to be installed and rectified. Improve record keeping of the books and accuracy of recording by reviewing monthly. Appointment of Manager Revenue and Budget to come with methods to address the qualification matter.
Irregular Expenditure	The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention with the Municipal Supply Chain Management (SCM) Regulations, resulting in irregular expenditure being understated by R1 356 760. In addition the irregular expenditure was disclosed inclusive of Value Added Tax (VAT) resulting in irregular expenditure being overstated by R2 128 285. I was unable to confirm the irregular expenditure by alternative means.  Consequently, I was unable to determine whether any adjustments to irregular expenditure stated at R67 665 993 (2012: R49 004 625) in note 47 to the financial	Budget and Treasury Office.	The identified irregular expenditure to be taken to council as per requirement of Sec 125(2)(d)(i) of the MFMA. The matter to be rectified as a prior year adjustment in the AFS and it is part of the action plan discussed at management meetings.



Section	Audit Finding	Responsibility	Remedial Action
	statements was necessary.		
Aggregation/accumulation of immaterial uncorrected misstatements.	<p>The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position:</p> <ul style="list-style-type: none"> <li>- Other PPE reflected as R8 457 909 is overstated by R1 070 111</li> <li>- Consumer debtors reflected as R3 147 403 is overstated by R632 406</li> <li>- Receivables reflected as R13 078 775 is overstated by R582 868</li> <li>- VAT receivables reflected as R4 427 635 is overstated by R326 532.</li> </ul>	Budget and Treasury Office.	The municipality intends to do AFS in-house and only request the quality review by a service provider. The Manager to be appointed will be responsible for addressing the issue and rectify it as prior year adjustment. The item to be part of action plan to be addressed at management meetings.
Restatement of corresponding figures	As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the annual financial statements of the Letsemeng Local Municipality at, and for the year ended, 30 June 2012.	Budget and Treasury Office.	The municipality intends to do AFS in-house and only request the quality review by a service provider. The Manager to be appointed will be responsible for addressing the issue and rectify it as prior year adjustment. The item to be part of action plan to be addressed at management meetings.
Material Losses	12. As disclosed in note 48 to the financial statements, material losses to the amount of R10 473	Budget and	The municipality intends to do AFS in-house and only request the quality review by a

Section	Audit Finding	Responsibility	Remedial Action
	401 (2012: R3 802 636) were incurred as a result of illegal connections and burst pipes.	Treasury Office.	service provider. The Manager to be appointed will be responsible for addressing the issue and rectify it as prior year adjustment. The item to be part of action plan to be addressed at management meetings.

Note should be taken that for the purpose of the annual report, the above recovery plan takes into account only qualification matters contained in the audit report. A detailed audit recovery plan addressing all matters raised on audit report and management report has been developed by various department

## 6.2 Letsemeng Audit Recovery Plan based on the Auditor General's Report (30 June 2014)

Section	Audit Finding	Responsibility	Remedial Action
<b>AUDIT REPORT MATTERS</b>			
Property, Plant and Equipment	Lack of supporting documentation to confirm how property, plant and equipment had been assessed for impairment and how the useful lives of the assets had been reassessed. Consequently, the necessity for the adjustments relating to property, plant and equipment stated at R 613 181 108 could not be determine.	Asset Practitioner	Condition assessment of assets will be carried out before the year ends to determine impairment and the useful lives of the assets. Management will ensure that Supporting documents are properly kept.
	Investment property was not recognized in terms of SA Standards of GRAP, GRAP 16 <i>Investment property</i> . Investment property was incorrectly included in land and buildings, resulting in property, plant and equipment being overstated and investment property being understated. The full extent of the misstatement could not be determined, as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.	Chief Financial Officer	Investment Property will be correctly classified and disclosed. Prior year misclassifications will be corrected. The accumulated surplus will accordingly be adjusted in accordance with GRAP 3 standard, where necessary.

Section	Audit Finding	Responsibility	Remedial Action
Service Charges	<p>Meter reading books were incomplete and inaccurate resulting in insufficient audit evidence regarding revenue from the sale of water and electricity included in the service charges.</p> <p>Management could also not provide sufficient appropriate audit evidence to substantiate the use of average readings during the year. Consequently, the necessity relating to revenue from water and electricity stated at R22 066 616 (2013: R18 504 897) in note 23 to the financial statements.</p>	<p>Revenue Accountant</p> <p>Budget and Revenue Manager</p>	<p>Reconciliation between Meter reading books and IRead System to be performed and ensure that all system routes are effectively operating.</p> <p>Differences recognised on understating or overstating of consumer account to be taken to Council to either credit a customer account overstated or makes arrangements for payments on customer accounts understated. The accumulated surplus will accordingly be adjusted in accordance with GRAP 3 standard, where necessary.</p> <p>Management will develop a policy that prohibits use of interim readings to be limited to a period not exceeding 3 months.</p>

Section	Audit Finding	Responsibility	Remedial Action
	Sufficient appropriate audit evidence could not be obtained regarding service charges for refuse and sewerage income, due to the billing for properties not on the valuation roll. In addition, incorrect tariffs were used for billing refuse and sewerage, while certain properties receiving services were not billed. Consequently, the necessity for the adjustments relating to revenue from refuse and sewerage stated at R15 477 860 in note 23 to the financial statements could not be determined.	Budget and Revenue Manager	Management will review the accuracy of the Valuation Roll and ensure that only properties on the valuation roll are charged refuse and sewerage. The accuracy of the tariffs will also be reviewed with a view to make the necessary corrections. Reconciliations will also be performed to ensure that all properties on the valuation roll are charged for services. Correct and Council approved tariffs will be uploaded in Sebata FMS to ensure proper and accurate billing is implemented.
Receivables from Exchange transactions	Lack of supporting documents for the interest raised on outstanding debtors balances result in insufficient appropriate audit evidence that management properly accounted for receivables from exchange transactions. Consequently, the necessity for adjustment to receivables from exchange transactions stated at R8 582 444 in note 3 to the financial statements could not be determined.	Chief Financial Officer.	Management will ensure that supporting documents are properly kept. Management will also make the necessary corrections regarding charging of interest correctly. Training will be provided to the relevant functionaries to ensure that receivables from exchange transactions are properly accounted for.
Receivables from Non Exchange transactions	Lack of supporting documents for the interest raised on outstanding debtors balances result in insufficient appropriate audit evidence that management properly accounted for receivables from non-exchange transactions. Consequently, the necessity for adjustment to receivables from non-exchange transactions stated at R3 709 782 in note 4 to the financial statements could not be determined.	Chief Financial Officer	Management will ensure that supporting documents are properly kept. Management will also make the necessary corrections regarding charging of interest correctly. Training will be provided to the relevant functionaries to ensure that receivables from exchange transactions are properly accounted for.

Section	Audit Finding	Responsibility	Remedial Action
General Expenditure	The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i> . Misclassifications were identified in general expenses, which should have been capitalised to property, plant and equipment. Consequently, general expenses were overstated and property, plant and equipment was understated by R2 758 765. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.	Manager Accounting Services	The necessary corrections will be made and training provided to the relevant employees on the correct classification of items. A procedure manual will be developed to ensure that employees have a source of reference. The 2014/2015 AFS will be adjusted accordingly in terms of GRAP 3.
Grants & Subsidies Paid	The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i> . Misclassifications were identified in grants and subsidies paid, which should have been capitalised to property, plant and equipment. Consequently, grants and subsidies paid were overstated and property, plant and equipment was understated by R2 167 882. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.	Budget Accountant.	The necessary corrections will be made and training provided to the relevant employees on the correct classification of items. A procedure manual will be developed to ensure that employees have a source of reference. The 2014/2015 AFS will be adjusted accordingly in terms of GRAP 3.
Repairs and Maintenance	The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i> . Misclassifications were identified in repairs and maintenance, which should have been capitalised to property, plant and equipment. Consequently, repairs and maintenance were overstated and property, plant and equipment was understated by R1 048 110. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.	Chief Financial Officer	The necessary corrections will be made and training provided to the relevant employees on the correct classification of items. A procedure manual will be developed to ensure that employees have a source of reference. The 2014/2015 AFS will be adjusted accordingly in terms of GRAP 3.

Section	Audit Finding	Responsibility	Remedial Action
Contracted Services	<p>The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i>. Misclassifications were identified in contracted services, which should have been capitalised to property, plant and equipment. In addition, there were duplicate invoices expensed for contracted services. Consequently, contracted services were overstated by R1 034 117; property, plant and equipment was understated by R695 955; and other creditors were overstated by R338 162. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.</p>	Manager Accounting Services	<p>The necessary corrections will be made and training provided to the relevant employees on the correct classification of items. A procedure manual will be developed to ensure that employees have a source of reference. The 2014/2015 AFS will be adjusted accordingly in terms of GRAP 3.</p>
Bulk Purchases	<p>The municipality did not have adequate systems to ensure that classes of operating expenditure were classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i>. Misclassifications were identified in bulk purchases paid, which should have been expensed to general expenses. In addition, the same invoices were captured in both the current and the prior year, while input value-added tax (VAT) was not claimed on some invoices of bulk purchases in the current year. Consequently, bulk purchases were overstated by R1 018 233; general expenses were understated by R564 544; and the VAT receivable was understated by R142 903. It was impracticable to determine which other account was affected by the duplicate invoices recognised for bulk purchases, due to inadequate systems. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.</p>	Accountant Expenditure	<p>The necessary corrections will be made and training provided to the relevant employees on the correct classification of items. A procedure manual will be developed to ensure that employees have a source of reference. The 2014/2015 AFS will be adjusted accordingly in terms of GRAP 3.</p>

Section	Audit Finding	Responsibility	Remedial Action
Payables from Exchange Transactions	Sufficient appropriate audit evidence could not be obtained that management had properly accounted for other creditors included in payables from exchange transactions, due to the status of the accounting records and a lack of reconciliations. Consequently, the necessity for adjustment to other creditors stated at R1 106 471 in note 12 to the financial statements could not be determined.	Revenue and Budget Manager	<p>The creditor's module will be implemented in the third quarter of 14/15 to address the internal control deficiencies.</p> <p>The AFS to be adjusted accordingly and correct classification to be implemented as a prior year item for 2014/15 comparative figures.</p> <p>Municipality will investigate transactions by checking orders generated but not paid and reconcile to the balances stated in the AFS</p>
Irregular Expenditure	The prior year irregular expenditure was disclosed inclusive of VAT, resulting in irregular expenditure being overstated. I was unable to determine the full extent of the misstatement, as it was impracticable to do so. This had a consequential impact on the current year closing balance of irregular expenditure of R88 064 441 (2013: R67 665 993) in note 42.3 being overstated.	Manager Accounting Service	The irregular expenditure will be referred to the MFMA Section 32 Committee for investigation and recommendation to Council.
Cash Flow Statement	Sufficient appropriate audit evidence regarding the cash flow statement and related notes for the current and prior years could not be obtained due to the material effect of misstatements and limitations placed on audit of various components of the financial statements. Consequently, the necessity for the adjustments of amounts disclosed in the cash flow statement could not be determined.	Budget Accountant	The necessary corrections will be made and training provided to the relevant employees on the correct classification of items. A procedure manual will be developed to ensure that employees have a source of reference. The 2014/2015 AFS will be adjusted accordingly in terms of GRAP 3.



Section	Audit Finding	Responsibility	Remedial Action
Aggregation/accumulation of immaterial uncorrected misstatements.	<p>I was unable to obtain sufficient appropriate audit evidence regarding the following items making up the statement financial position, which had a cumulative effect on the financial statements:</p> <ul style="list-style-type: none"> <li>• Unspent conditional grants of R417 171 as included in the disclosed balance of R13 713 326</li> <li>• Inventory of R373 198 (2013: R373 238) as included in the disclosed balance of R373 198 (2013: R373 198)</li> </ul> <p>I was unable to confirm these amounts by alternative means. As a result, I was unable to determine whether any adjustment to these items was necessary.</p>	Budget Accountant/Technical Officer	The necessary corrections will be made and training provided to the relevant employees on the correct classification of items. A procedure manual will be developed to ensure that employees have a source of reference. The 2014/2015 AFS will be adjusted accordingly in terms of GRAP 3.

Note should be taken that for the purpose of the annual report, the above recovery plan takes into account only qualification matters contained in the audit report. A detailed audit recovery plan addressing all matters rose on audit report and management report has been developed by various departments

## 6.3 AUDITOR GENERAL OPINION OF FINANCIAL STATEMENTS (30 JUNE 2014 FINANCIAL YEAR)

### 6.3.1 Auditor General Reports (30 June 2014)

The municipality received a qualified audit report for 2012/13 and disclaimer opinion for 2013/14 financial years. The main causes of the disclaimer opinion are extrapolated in the table below on the third column. The table below details the main internal control deficiencies of the disclaimer opinion from qualification over the past two years:

	2012/13	2013/14
STATUS	Qualification	Disclaimer
Internal Control Deficiencies that led to a Disclaimer from a Qualification as per comparative years.	<p><b>Service charges</b></p> <p>I was unable to obtain sufficient appropriate audit evidence regarding revenue from the sale of water and electricity included in the service charges income as the meter reading books were incomplete and inaccurate. I was unable to confirm revenue from sale of water and electricity by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from sale of water stated at R4 466 907 and sale of electricity stated at R14 037 990 in note 23 to the financial statements were necessary</p> <p><b>Irregular expenditure</b></p> <p>The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2) (d) (i) of the MFMA. The municipality incurred expenditure in contravention with the Municipal Supply Chain Management (SCM) Regulations, resulting in irregular expenditure being understated by R1 356 760. In addition the irregular</p>	<p><b>Property, plant and equipment</b></p> <p>I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment. Management could not provide me with supporting documentation to confirm how property, plant and equipment had been assessed for impairment and how the useful lives of the assets had been reassessed. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to property, plant and equipment stated at R613 181 108 in note 7 to the financial statements.</p> <p>In addition, the municipality did not recognise investment property in terms of SA Standards of GRAP, GRAP 16 <i>Investment property</i>. Investment property was incorrectly included in land and buildings, resulting in property, plant and equipment being overstated and investment property being understated. I was unable to determine the full extent of the misstatement, as it was impracticable to do so. Additionally, there was a</p>

	2012/13	2013/14
STATUS	Qualification	Disclaimer
	<p>expenditure was disclosed inclusive of Value Added Tax (VAT) resulting in irregular expenditure being overstated by R2 128 285. I was unable to confirm the irregular expenditure by alternative means.</p> <p>Consequently, I was unable to determine whether any adjustments to irregular expenditure stated at R67 665 993 (2012: R49 004 625) in note 47 to the financial statements was necessary.</p> <p><b>Aggregation/accumulation of immaterial uncorrected misstatements</b></p> <p>The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position:</p> <ul style="list-style-type: none"> <li>- Other PPE reflected as R8 457 909 is overstated by R1 070 111</li> <li>- Consumer debtors reflected as R3 147 403 is overstated by R632 406</li> <li>- Receivables reflected as R13 078 775 is overstated by R582 868</li> <li>- VAT receivables reflected as R4 427 635 is overstated by R326 532.</li> </ul>	<p>resultant impact on the surplus for the period and the accumulated surplus.</p> <p><b>Service charges</b></p> <p>I was unable to obtain sufficient appropriate audit evidence regarding revenue from the sale of water and electricity included in the service charges income, as the meter reading books were incomplete and inaccurate. Management could also not provide sufficient appropriate audit evidence to substantiate the use of average readings during the year. I was unable to confirm revenue from water and electricity by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to revenue from water and electricity stated at R22 066 616 (2013: R18 504 897) in note 23 to the financial statements.</p> <p>I was unable to obtain sufficient appropriate audit evidence regarding service charges for refuse and sewerage income, due to the municipality billing for properties not on the valuation roll. In addition, incorrect tariffs were used for billing refuse and sewerage, while certain properties receiving services were not billed. I was unable to confirm revenue from refuse and sewerage by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to revenue from refuse and sewerage stated at R15 477 860 in note 23 to the financial statements.</p>

	2012/13	2013/14
STATUS	Qualification	Disclaimer
		<p><b>Receivables from exchange transactions</b></p> <p>I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for receivables from exchange transactions, due to management not providing sufficient supporting information for the interest raised on outstanding debtor balances. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R8 582 444 in note 3 to the financial statements.</p> <p><b>Receivables from non-exchange transactions</b></p> <p>I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for receivables from non-exchange transactions, due to management not providing sufficient supporting information for the interest raised on outstanding debtor balances. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R3 709 782 in note 4 to the financial statements.</p> <p><b>General expenses</b></p> <p>The municipality did not have adequate systems to ensure that both capital and operating expenditure was</p>

	2012/13	2013/14
STATUS	Qualification	Disclaimer
		<p>classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i>. Misclassifications were identified in general expenses, which should have been capitalised to property, plant and equipment. Consequently, general expenses were overstated and property, plant and equipment was understated by R2 758 765. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.</p> <p><b>Grants and subsidies paid</b></p> <p>The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i>. Misclassifications were identified in grants and subsidies paid, which should have been capitalised to property, plant and equipment. Consequently, grants and subsidies paid were overstated and property, plant and equipment was understated by R2 167 882. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.</p> <p><b>Repairs and maintenance</b></p> <p>The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i>. Misclassifications were identified in repairs and maintenance, which should have been capitalised to property, plant and equipment. Consequently, repairs</p>

	2012/13	2013/14
STATUS	Qualification	Disclaimer
		<p>and maintenance were overstated and property, plant and equipment was understated by R1 048 110. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.</p> <p><b>Contracted services</b></p> <p>The municipality did not have adequate systems to ensure that both capital and operating expenditure was classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i>. Misclassifications were identified in contracted services, which should have been capitalised to property, plant and equipment. In addition, there were duplicate invoices expensed for contracted services. Consequently, contracted services were overstated by R1 034 117; property, plant and equipment was understated by R695 955; and other creditors were overstated by R338 162. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.</p> <p><b>Bulk purchases</b></p> <p>The municipality did not have adequate systems to ensure that classes of operating expenditure were classified correctly in terms of SA Standards of GRAP, GRAP 1 <i>Presentation of financial statements</i>. Misclassifications were identified in bulk purchases paid, which should have been expensed to general expenses. In addition, the same invoices were captured in both the current and the prior year, while input value-added tax (VAT) was not claimed on some invoices of bulk</p>

	2012/13	2013/14
STATUS	Qualification	Disclaimer
		<p>purchases in the current year. Consequently, bulk purchases were overstated by R1 018 233; general expenses were understated by R564 544; and the VAT receivable was understated by R142 903. It was impracticable for me to determine which other account was affected by the duplicate invoices recognised for bulk purchases, due to inadequate systems. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.</p> <p><b>Payables from exchange transactions</b></p> <p>I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for other creditors included in payables from exchange transactions, due to the status of the accounting records and a lack of reconciliations. I was unable to confirm other creditors by alternative means. Consequently, I was unable to determine whether any adjustment to other creditors stated at R1 106 471 in note 12 to the financial statements was necessary.</p> <p><b>Irregular expenditure</b></p> <p>The prior year irregular expenditure was disclosed inclusive of VAT, resulting in irregular expenditure being overstated. I was unable to determine the full extent of the misstatement, as it was impracticable to do so. This had a consequential impact on the current year closing balance of irregular expenditure of R88 064 441 (2013: R67 665 993) in note 42.3 being overstated.</p>

	2012/13	2013/14
STATUS	Qualification	Disclaimer
		<p><b>Cash flow statement</b></p> <p>I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement and related notes for the current and prior years, due to the material effect of misstatements and limitations placed on my audit of various components of the financial statements. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether adjustments were necessary to the amounts disclosed in the cash flow statement.</p> <p><b>Aggregation of immaterial uncorrected misstatements</b></p> <p>I was unable to obtain sufficient appropriate audit evidence regarding the following items making up the statement financial position, which had a cumulative effect on the financial statements:</p> <ul style="list-style-type: none"> <li>• Unspent conditional grants of R417 171 as included in the disclosed balance of R13 713 326</li> <li>• Inventory of R373 198 (2013: R373 238) as included in the disclosed balance of R373 198 (2013: R373 198)</li> </ul> <p>I was unable to confirm these amounts by alternative means. As a result, I was unable to determine whether any adjustment to these items was necessary.</p>



	2012/13	2013/14
STATUS	Qualification	Disclaimer

## **COMMENTS ON MFMA SECTION 71 RESPONSIBILITIES**

Section 71 of the MFMA requires municipalities to return a series of financial performance data to the National Treasury at specified intervals throughout the year.

The Chief Financial Officer states that these datasets have been returned according to the reporting requirements/ with the exception of those items and for those reasons given at **Appendix I**.

## 1. GLOSSARY

<b>Accessibility indicators</b>	Explore whether the intended beneficiaries are able to access services or Outputs.
<b>Accountability documents</b>	Document used by executive authorities to give <i>“full and regular”</i> reports On the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution. This includes plans, budgets, in-year and Annual Reports.
<b>Activities</b>	The processes or actions that is used to range inputs to produce the desired Outputs and ultimately outcomes. In essence, activities describe <i>“what we do”</i> .
<b>Adequacy indicators</b>	The quantity of input or output relative to the need or demand.
<b>Annual Report</b>	A report to be prepared and submitted annually based on the regulations set Out in Section 121 of the Municipal Finance Management Act. Such a report must include annual financial statements as submitted to and approved by the Auditor-General.
<b>Approved Budget</b>	The annual financial statements of a municipality as audited by the Auditor General and approved by council or a provincial or national executive.
<b>Baseline</b>	Current level of performance that a municipality aims to improve when Setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
<b>Basic municipal service</b>	A municipal service that is necessary to ensure an acceptable and reasonable Quality of life to citizens within that particular area. If not provided it may endanger the public health and safety or the environment.
<b>Budget year</b>	The financial year for which an annual budget is to be approved–means a Year ending on 30June.
<b>Cost indicators</b>	The overall cost or expenditure of producing a specified quantity of outputs.

<b>Distribution indicators</b>	The distribution of capacity to deliver services.
<b>Financial Statements</b>	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other Statements that may be prescribed.
<b>General Key performance indicators</b>	After consultation with MECs for local government, the Minister may prescribe general key performance indicators that are appropriate and applicable to local government generally.
<b>Impact</b>	The results of achieving specific outcomes, such as reducing poverty and Creating jobs.
<b>Inputs</b>	All the resources that contribute to the production and delivery of outputs. Inputs are "what we use to do the work". They include finances, personnel, equipment and buildings.
<b>Integrated Development Plan (IDP)</b>	Set out municipal goals and development plans.
<b>National Key performance areas</b>	<ul style="list-style-type: none"> <li>• Service delivery &amp; infrastructure</li> <li>• Economic development</li> <li>• Municipal transformation and institutional development</li> <li>• Financial viability and management</li> <li>• Good governance and community participation</li> </ul>
<b>Outcomes</b>	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve".
<b>Outputs</b>	The final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver". An output is a concrete achievement(i.e. a product such as a passport, an action such as a presentation or immunization, or a service such as processing an application) that contributes to the achievement of a Key Result Area.
<b>Performance Indicator</b>	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered)

<b>Performance Information</b>	Generic term for non-financial information about municipal services and activities, can also be used interchangeably with performance measure.
<b>Performance Standards:</b>	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMDS performance standards are divided into indicators and the time factor.
<b>Performance Targets</b>	The level of performance that municipalities and its employees strive to achieve. Performance Targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.
<b>Service Delivery Budget Implementation Plan</b>	Detailed plan approved by the Mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included
<b>Vote</b>	One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The Vote specifies the total amount that is appropriated for the purpose of a specific department or functional area. Section1oftheMFMA defines a "vote" as: <i>a)one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and</i> <i>b)which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.</i>

1. APPENDIX A: COUNCILLORS, COMMITTEE ALLOCATION AND COUNCIL ATTENDANCE

Councillors, Committees Allocated and Council Attendance					
Council Members	Full Time (FT) or Part Time (PT)	Committees Allocated	*Ward and/or Party Represented	Percentage Council Meetings Attendance	Percentage Apologies for non- attendance
				%	%
TI Reachable	FT	Oversight Role for Committees	Ward 5	100%	0%
P Louw	PT	S 79 – Infrastructure	Ward 4	100%	0%
MA Mpatshehla	PT	S 79 – Health & Safety	Ward 5	80%	20%
VA Mona	PT	S 79 – Corporate Services & Sports	Ward 4	60%	40%
MM Tsiloane	PT	S 79 Finance	Ward 1	100%	0%
S Lecoko	PT	S 79 - Corporate Services	Ward 3	80%	20%
P Dibe	PT	S 79 – Planning & Development	Ward 6	100%	0%
M Jantjies	PT	S 79 - Corporate Services	Ward 2	80%	20%
K Nel	PT	S 79 – Finance	Ward 2	100%	0%
V. Coetzee	PT	S 79 – Infrastructure	Ward 5	50%	50%
L Greef	PT	S 79 – Health & Safety	Ward 1	50%	50%
<i>Note: * There are five Councillors appointed on a proportional basis and have wards allocated to them.</i>					T A

## 2. APPENDIX B: COMMITTEES AND COMMITTEE PURPOSES

The Municipal Council currently has the following committees in place. The following are the details of the committees.

<b>Committees(other than Mayoral/Executive Committee) and Purposes of Committees</b>	
<b>Municipal Committees</b>	<b>Purpose of Committee</b>
Local Inter-governmental Relations	To address challenges that are affecting community and sector departments.
Section 79 - Finance	To play an oversight role on all matters relating to the finances and make recommendations to Council
Section 79 – Health & Safety	To promote a health environment and conducive environment and continuous health environment improvement and areas that need urgent attention
Section 79 – Corporate Services & Sports	To promote talent and wellness in an institution and advise Council on all matters pertaining to staff.  Effective people management within the institution to motivate and skills development of employees
Section 79 - Infrastructure	To address service delivery issues and identifying projects necessary for service delivery improvement.

### 3. APPENDIX C: THIRD TIER ADMINISTRATIVE STRUCTURE

Designation	Initials& SURNAME	START DATE	END DATE
Municipal Manager	I.E.Pooe	1 July 2013	18 November 2014
Acting Municipal Manager	Z.Manjiya	19 November 2013	30 June 2014
Municipal Manager	B Mnguni	01 August 2014	To date
Acting Chief Financial Officer	S.Busakwe	1 July 2013	30 October 2013
Chief Financial Officer	Z.Manjiya	1 November 2013	03 September 2014
Acting Chief Financial Officer	Levy Masheane	08 September 2014	To date
Director Technical Services	N.C.Nameco	1 July 2013	30 June 2014
Director Community Services	T.A.Reachable	1 July 2013	30 June 2014
Acting Director Corporate Services	F.F.Wetes	28 November 2013	28 February 2014
Acting Director Corporate	T.F.Deeuw	03 March 2014	30 June 2014



#### 4. APPENDIX D: WARD REPORTING

Functionality of Ward Committees					
Ward Name(Number)	Name of Ward Councillors and elected Ward committee members	Committee established (Yes/No)	Number of monthly Committee meetings held during the year	Number of monthly reports submitted to Speakers Office on time	Number of quarterly public ward meetings held during year
1	Cllr M. Tsiloane	Yes	4	4	6
2	Cllr M. Jantjies	Yes	4	4	3
3	Cllr S. Lechoko	Yes	4	4	2
4	Cllr V. Mona	Yes	4	4	7
5	Cllr M. Mpatshela	Yes	4	4	2
6	Cllr P. Dibe	Yes	4	4	3

5. APPENDIX E: LONG TERM CONTRACTS

					R'000
Name of Service Provider (Entity or Municipal)	Description of Services Rendered by the Service Provider	Start Date Of Contract	Completion date of Contract	Project manager	Contract Value
Ndlala Mass Valuers	Compilation of Valuation Roll and Supplementary Valuation Roll	2013/07/01	2017/06/30	Mr. Mnguni	
Thebeyaka Consulting Services	Co Sourcing of Internal Audit Activity	2014/06/01	2015/06/30	Mr.Mnguni	1 600 000
Dihlase/Ikageng	Provision of community lighting	2014/01/02	2015/07/15	Mr. M. Tsoene	3 784 404
Freelance construction	Koffiefontein: Multi-Purpose Community	2012/03/02	2014/09/11	Mr. M. Tsoene	18 296 811

## 6. APPENDIX G: MUNICIPAL SERVICE PROVIDER PERFORMANCE SCHEDULE

### (a) Municipal Manager Office

SERVICE PROVIDER	PURPOSE	PERFORMANCE
Thebeyaka Consulting	Co Sourcing of Internal Audit Activity.	<b>Satisfactory</b>

### (b) Budget and Treasury Office

SERVICE PROVIDER	PURPOSE	PERFORMANCE
Durchame Consultants	Assisted with the compilation of the GRAP Annual Financial Statements.	<b>Satisfactory</b>
Ndlala Mass Valuers	Assisted with compilation of Valuation Roll and Supplementary Valuation Roll	<b>Satisfactory</b>

### (c) Technical Department

SERVICE PROVIDER	PURPOSE	Performance
Colemo Projects	Petrusburg Water Relief project	<b>Satisfactory</b>
Mofomo Construction	Luckhoff: Phase 1 – Construction of 7,7 km streets and storm water ( MIS: 189925)	<b>Satisfactory</b>
Nomad Construction	Jacobsdal/Ratanang: Construction of 2km access road and storm water (MIS: 194947)	<b>Satisfactory</b>
Nomad Construction	Provision of 500KI Storage Tank in Bolokanang	<b>Satisfactory</b>
Freelance Construction	Dithlake/ Diamanthoogte: New Multipurpose Centre (MIS 194994)	<b>Satisfactory</b>

## 7. APPENDIX H: DISCLOSURE OF FINANCIAL INTERESTS

Position	Name	Description of interest (Nil/or details)
<b>Mayor</b>	Thandiwe Ivy Reachable	Nil
<b>Councillors</b>	Pudumo Jan Louw	<b>Nil</b>
	Vuyisile Andries Mona	Nil
	Muso Albert Mpatshela	Shares in Trust Fund, De Beers Pension Fund
	Michael Tsiloane	Nil
	Matthews Jantjies	Nil
	Sibongile Lecoko	Nil
	Palesa Mildred Dibe	Nil
	Kempen W Nel	Shares: Suidwes Kooperasie, GWK, Celtron International, JW Nel & Son Boerdery, Simbiose Boerdery, Kempen W Nel Family Trust
	V. Coetzee	Shares: Lulana investmets
	Lionel Greef	Nil
<b>Municipal Manager</b>	Rev. I .E Poee	Shares: Wesu synergie, Inzalo Sasol

<b>Municipal Manager</b>	Mr. B.A Mnguni	Shares: Synophony ,Mashavane, Dream vacation
<b>Acting Chief Financial Officer</b>	Mr. L.Mashiane	Nil
	Mr. Z Manjiya	Nil
<b>Other S56 Officials</b>	Mr. T. Deeuw	Nil
	Mr.N. Gaelejwe	Nil
	Mr. A. Reachable	

**8. APPENDIX I: DECLARATION OF RETURNS NOT MADE IN DUE TIME UNDER MFMA S71**

MFMA Section 71 Returns not submitted during the Year according to Reporting Requirements	
<b>Returns</b>	<b>Reason Return has not been properly made on due date</b>
1. Age Debtors M01-M12	The old return forms were used and National Treasury's system rejected the forms and the new forms were completed after and still the system rejected the form..

**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2014**  
**REPORT OF THE CHIEF FINANCIAL OFFICER**

**1. INTRODUCTION**

It gives me great pleasure to present the Annual Financial Statements of Letsemeng Municipality at 30 June 2014.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2012/13 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

**2. KEY FINANCIAL INDICATORS**

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

**2.1 Financial Statement Ratios:**

INDICATOR	2014	2013
Surplus / (Deficit) before Appropriations	17 606 313	5 966 172
Surplus / (Deficit) at the end of the Year	623 560 938	616 468 342
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	24.02%	27.06%
Remuneration of Councillors	2.76%	3.25%
Depreciation and Amortisation	17.06%	17.61%
Impairment Losses	4.84%	4.76%
Repairs and Maintenance	3.91%	2.74%
Interest Paid	0.51%	1.29%
Bulk Purchases	20.29%	18.26%
Contracted Services	4.13%	3.59%
Grants and Subsidies Paid	5.54%	2.53%
General Expenses	16.95%	18.92%
<b>Financial Position</b>		
Debtors Management:		
Outstanding Debtors to Revenue	12.04%	5.51%
Liquidity Management:		
Liquidity Ratio	0.61	0.15

### 3. OPERATING RESULTS

The services offered by Letsemeng Local Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2014 are as follows:

DETAILS	Actual 2013/14 R	Actual 2012/13 R	Percentage Variance %	Budgeted 2013/14 R	Variance actual/ budgeted %
<b>Income:</b>					
Opening surplus / (deficit)	617 260 523	614 220 538	0.49	-	100.00
Operating income for the year	129 955 753	115 249 432	12.76	108 611 000	19.65
Appropriations for the year	(10 513 718)	-	100.00	-	100.00
	736 702 558	729 469 970	0.99	108 611 000	578.29
<b>Expenditure:</b>					
Operating expenditure for the year	112 349 441	109 283 260	2.81	110 870 389	1.33
Sundry transfers	-	2 926 187	(100.00)	-	-
Closing surplus / (deficit)	624 353 118	617 260 523	1.15	(2 259 389)	(27 733.72)
	736 702 558	729 469 970	0.99	108 611 000	578.29

### 4. RECONCILIATION OF BUDGET TO ACTUAL

#### 4.1 Operating Budget:

DETAILS	2014	2013
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	(2 259 389)	503 870
Revenue variances	21 344 753	12 990 507
Expenditure variances:		
Employee Related Costs	4 537 615	3 689 254
Remuneration of Councillors	478 843	(950 602)
Depreciation and Amortisation	(12 729 129)	(17 941 967)
Impairment Losses	(137 125)	5 407 137
Repairs and Maintenance	(4 393 457)	3 016 342
Interest Paid	(457 250)	(1 344 939)
Bulk Purchases	(90 527)	2 546 602
Contracted Services	(2 114 840)	2 970 044
Grants and Subsidies Paid	(6 221 283)	(506 486)
General Expenses	19 648 100	(4 413 589)
Actual surplus before appropriations	17 606 313	5 966 172

DETAILS	2014	2013
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	(2 259 389)	(51)
Executive and Council	6 369 822	5 123 793
Finance and Administration	4 766 353	(19 974 012)
Planning and Development	(856 133)	(1 478 476)
Community and Social Services	1 828 400	536 707
Housing	(81 036)	(138 674)
Public Safety	816 893	232 224
Sport and Recreation	828 360	505 752
Environmental Protection	8 755	(64 282)
Waste Management	2 697 339	(1 281 806)
Roads and Transport	(194 093)	1 285 918
Water	6 593 697	(1 497 812)
Electricity	(10 442 981)	(277 676)
Other	20 575 091	21 917 277
Actual surplus before appropriations	30 651 079	4 888 884

## 5. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2014 amounted to R623 560 938 (30 June 2013: R616 468 342) and is made up as follows:

Capital Replacement Reserve	-
Capitalisation Reserve	-
Donations and Public Contributions Reserve	2 022 113
Government Grants Reserve	-
Accumulated Surplus	621 538 825
	<u>623 560 938</u>

The Donations and Public Contributions Reserve is utilised to offset the cost of depreciation of assets funded from Contributions from Public over the lifespan of such assets. Amounts equal to the cost of assets acquired from Public Contributions are transferred to the reserve annually.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 17 and the Statement of Change in Net Assets for more detail.

## 6. EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities amounted R5 416 151 as at 30 June 2014 (30 June 2013: R5 029 327) and is made up as follows:

Post-retirement Health Care Benefits Liability	3 810 833
Long Service Awards Liability	1 605 318
	<u>5 416 151</u>

The Post-retirement Health Care Benefits Liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

The Long-term Service Liability is an estimate of the long-service based on historical staff turnover. No other long-term service benefits are provided to employees. This liability is unfunded.

Refer to Note 15 for more detail.

## 7. NON-CURRENT PROVISIONS

Non-current Provisions amounted R7 637 387 as at 30 June 2014 (30 June 2013: R7 158 484) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites 7 637 387 7 637 387

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These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 16 for more detail.

## 8. CURRENT LIABILITIES

Current Liabilities amounted R24 682 093 as at 30 June 2014 (30 June 2013: R13 057 341) and is made up as follows:

Consumer Deposits	Note 10	744 824
Provisions	Note 11	535 375
Payables from Exchange Transactions	Note 12	9 688 568
Unspent Conditional Grants and Receipts	Note 13	13 713 326
		<u>24 682 093</u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

## 9. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R613 181 108 as at 30 June 2014 (30 June 2013: R612 207 868).

Refer to Note 7.

## 10. INTANGIBLE ASSETS

The net value of Intangible Assets was R190 753 as at 30 June 2014 (30 June 2013: R135 081).

Intangible Assets are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 8.

## 11. CURRENT ASSETS

Current Assets amounted R29 515 419 as at 30 June 2014 (30 June 2013: R11 674 505) and is made up as follows:

Inventories	Note 2	373 198
Receivables from Exchange Transactions	Note 3	8 582 444
Receivables from Non-exchange Transactions	Note 4	3 709 782
VAT Receivable	Note 5	1 817 160
Cash and Cash Equivalents	Note 6	15 032 834
		<u>29 515 419</u>

The increase in the amount for Current Assets is mainly due to the increased amount held in Bank and Cash Equivalents.

Refer to the indicated Notes for more detail.



## **12. INTER-GOVERNMENTAL GRANTS**

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 13 and 21.

## **13. EVENTS AFTER THE REPORTING DATE**

Full details of all known events, if any, after the reporting date are disclosed in Note 50.

## **14. EXPRESSION OF APPRECIATION**

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

**LETSEMENG MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014**

	Note	Actual	
		2014 R	2013 Restated R
<b>ASSETS</b>			
<b>Current Assets</b>		<b>29 515 419</b>	<b>11 674 505</b>
Inventories	2	373 198	373 238
Receivables from Exchange Transactions	3	8 582 444	4 225 791
Receivables from Non-exchange Transactions	4	3 709 782	622 425
VAT Receivable	5	1 817 160	4 478 848
Cash and Cash Equivalents	6	15 032 834	1 974 203
<b>Non-Current Assets</b>		<b>631 781 150</b>	<b>630 038 989</b>
Property, Plant and Equipment	7	613 181 108	612 207 868
Intangible Assets	8	190 753	135 081
Non-current Investments	9	18 409 289	17 696 041
<b>Total Assets</b>		<b>661 296 569</b>	<b>641 713 494</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>24 682 093</b>	<b>13 057 341</b>
Consumer Deposits	10	744 824	614 860
Provisions	11	535 375	451 860
Payables from Exchange Transactions	12	9 688 568	9 963 877
Unspent Conditional Grants and Receipts	13	13 713 326	1 878 724
Current Portion of Long-term Liabilities	14	-	148 020
<b>Non-Current Liabilities</b>		<b>13 053 538</b>	<b>12 187 811</b>
Long-term Liabilities	14	-	-
Employee Benefit Liabilities	15	5 416 151	5 029 327
Non-current Provisions	16	7 637 387	7 158 484
<b>Total Liabilities</b>		<b>37 735 631</b>	<b>25 245 153</b>
<b>Total Assets and Liabilities</b>		<b>623 560 938</b>	<b>616 468 341</b>
<b>NET ASSETS</b>		<b>623 560 938</b>	<b>616 468 342</b>
Accumulated Surplus / (Deficit)	17	623 560 938	616 468 342
<b>Total Net Assets</b>		<b>623 560 938</b>	<b>616 468 342</b>

**LETSEMENG MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014**

	Note	Actual	2013 Restated R
<b>REVENUE</b>			
<b>Revenue from Non-exchange Transactions</b>			
Property Rates	18		7 295 013
Fines	19		55 510
Licences and Permits	20		1 399
Government Grants and Subsidies Received	21		77 839 935
Public Contributions and Donations	22		1 934 147
<b>Revenue from Exchange Transactions</b>			
Service Charges	23		23 413 848
Rental of Facilities and Equipment	24		288 552
Interest Earned - External Investments	25		1 201 856
Interest Earned - Outstanding Debtors	25		2 225 321
Dividends Received	26		10 607
Other Revenue	27		975 645
Other Gains on Continued Operations	38		7 600
<b>Total Revenue</b>			<b><u><u>115 249 432</u></u></b>
<b>EXPENDITURE</b>			
Employee Related Costs	28		29 568 180
Remuneration of Councillors	29		3 550 594
Depreciation and Amortisation	30		19 239 967
Impairment Losses	31		5 200 917
Repairs and Maintenance	32		2 998 121
Finance Costs	33		1 410 835
Bulk Purchases	34		19 953 398
Contracted Services	35		3 927 016
Grants and Subsidies Paid	36		2 760 715
General Expenses	37		20 673 517
<b>Total Expenditure</b>			<b><u><u>109 283 260</u></u></b>
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>			<b><u><u>5 966 172</u></u></b>
<b>Refer to Budget Statement for explanation of budget variances</b>			

**LETSEMENG MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014**

Description	Revaluation Reserve	Total for Accumulated Surplus/(Deficit) Account	Total
	R	R	R
<b>2013</b>			
Balance at 30 June 2012	-	614 220 538	614 220 538
Correction of Error (Note 39)	-	(2 926 187)	(2 926 187)
<b>Restated Balance</b>	-	<b>611 294 351</b>	<b>611 294 351</b>
Surplus / (Deficit) for the year - restated		5 966 172	5 966 172
Addition for the year as reflected in 2012/2013 Financial Statements		1 925 113	1 925 113
Other adjustments		(2 717 310)	(2 717 310)
<b>Balance at 30 June 2013</b>	-	<b>616 468 326</b>	<b>616 468 326</b>
<b>2014</b>			
Correction of Error (Note 39)		-	-
<b>Restated Balance</b>	-	<b>616 468 326</b>	<b>616 468 326</b>
Surplus / (Deficit) for the year		17 606 313	17 606 313
Contributions to indigent subsidies	-	(10 513 718)	(10 513 718)
<b>Balance at 30 June 2014</b>	-	<b>623 560 921</b>	<b>623 560 921</b>

Details on the movement of the Funds and Reserves are set out in Note 17.

**LETSEMENG MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014**

	Note	Actual	
		2014 R	2013 Restated R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Property Rates		5 701 352	4 852 808
Government Grant and Subsidies		90 145 100	78 224 229
Public Contributions and Donations		-	1 934 147
Service Charges		27 685 604	20 278 126
Interest Received		3 717 802	3 427 176
Dividends Received		3 059	10 607
Other Receipts		3 336 487	(838 693)
<b>Payments</b>			
Employee Related Costs		(26 518 885)	(33 206 192)
Remuneration of Councillors		(3 096 157)	(3 550 594)
Interest Paid		(575 250)	(1 410 835)
Suppliers Paid		(32 097 533)	(28 867 870)
Other Payments		(34 186 090)	(19 367 063)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>40</b>	<b>34 115 491</b>	<b>21 485 846</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment		(20 080 644)	(22 918 824)
Purchase of Intangible Assets		(114 946)	(143 223)
Decrease / (Increase) in Non-current Investments		(713 248)	(3 572 250)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(20 908 838)</b>	<b>(26 634 297)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Borrowings		(148 020)	(1 315 757)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(148 020)</b>	<b>(1 315 757)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>13 058 632</b>	<b>(6 464 207)</b>
			0.00
Cash and Cash Equivalents at Beginning of Period		1 974 203	8 438 410
Cash and Cash Equivalents at End of Period	<b>6</b>	<b>15 032 834</b>	<b>1 974 203</b>

## LETSEMENG MUNICIPALITY

### STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2014

30 June 2014

Description	Original Total Budget	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R
<b>FINANCIAL POSITION</b>							
<b>Current Assets</b>							
Inventories	1 184 000	1 184 000	1 184 000	373 198	(810 802)	31.52	31.52
Receivables from Exchange Transactions	4 270 000	4 270 000	4 270 000	8 582 444	4 312 444	200.99	200.99
Receivables from Non-exchange Transactions	13 853 000	13 853 000	13 853 000	3 709 782	(10 143 218)	26.78	26.78
VAT Receivable	-	-	-	1 817 160	1 817 160	0.00	0.00
Cash and Cash Equivalents	22 477 000	22 477 000	22 477 000	15 032 834	(7 444 166)	66.88	66.88
Current Portion of Long-term Receivables	1 563 000	1 563 000	1 563 000	-	(1 563 000)	0.00	0.00
<b>Non-Current Assets</b>							
Property, Plant and Equipment	626 159 000	626 159 000	626 159 000	613 181 108	(12 977 892)	97.93	97.93
Intangible Assets	246 000	246 000	246 000	190 753	(55 247)	77.54	77.54
Non-current Investments	-	-	-	18 409 289	18 409 289	0.00	0.00
<b>Total Assets</b>	<b>669 752 000</b>	<b>669 752 000</b>	<b>669 752 000</b>	<b>661 296 569</b>	<b>(8 455 431)</b>	<b>98.74</b>	<b>98.74</b>
<b>Current Liabilities</b>							
Consumer Deposits	669 000	669 000	669 000	744 824	75 824	111.33	111.33
Provisions	3 814 000	3 814 000	3 814 000	535 375	(3 278 625)	14.04	14.04
Payables from Exchange Transactions	14 096 000	14 096 000	14 096 000	9 688 568	(4 407 432)	68.73	68.73
Unspent Conditional Grants and Receipts	-	-	-	13 713 326	13 713 326	0.00	0.00
Current Portion of Long-term Liabilities	-	-	-	-	-	0.00	0.00
<b>Non-Current Liabilities</b>							
Retirement Benefit Liabilities	-	-	-	5 416 151	5 416 151	0.00	0.00
Non-current Provisions	-	-	-	7 637 387	7 637 387	0.00	0.00
<b>Total Liabilities</b>	<b>18 579 000</b>	<b>18 579 000</b>	<b>18 579 000</b>	<b>37 735 631</b>	<b>19 156 631</b>	<b>203.11</b>	<b>203.11</b>
<b>Total Assets and Liabilities</b>	<b>651 173 000</b>	<b>651 173 000</b>	<b>651 173 000</b>	<b>623 560 938</b>	<b>(27 612 062)</b>	<b>95.76</b>	<b>95.76</b>
<b>Net Assets (Equity)</b>							
Accumulated Surplus / (Deficit)	608 701 000	608 701 000	608 701 000	623 560 938	14 859 938	102.44	102.44
<b>Total Net Assets</b>	<b>608 701 000</b>	<b>608 701 000</b>	<b>608 701 000</b>	<b>623 560 938</b>	<b>14 859 938</b>	<b>102.44</b>	<b>102.44</b>

**Financial Position: Explanation of Variances between Approved Budget and Actual**

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

**Inventories:**

The inventory consisted mostly of consumable used for repairs and maintenance of the municipality. Due to inventory being old it was measured at lower of cost and net realisable value. The balance was therefore low and it was over budgeted for.

**Receivables from Exchange Transactions:**

Bad Debts provision was less than budgeted

**for. Receivables from Non-exchange Transactions:**

Grants receivable was incorrectly recorded in 2012/2013 which lead to the budget being distorted. VAT Receivable:

Claims for Input VAT not yet paid by SARS. Municipality did not expect to receive VAT refunds. Cash and Cash Equivalents:

Cash flow of the municipality was expected to be better more expenditure occurred that budgeted for. Current Portion of Long-term Receivables:

Over budgeted for, lease liabilities expired during the year. Property, Plant and Equipment:

Did not budget for Roll-over Projects from 2012/13. Intangible Assets:

Acquisition of intangible assets were less than expected. Consumer Deposits:

More deposits was received than was budgeted for. Provisions:

Over budgeted for as staff turnover took place which affected the provisions. Payables from Exchange Transactions:

Staff leave accrual decrease significantly due to high turnover of staff. Payables decreased and it was expected to increase from the 2012/2013 period. Unspent Conditional Grants and Receipts:

Did not budget for Roll-over Projects funded from Grants. Retirement Benefit Liabilities:

Did not budget for Retirement Benefit Liabilities. Non-current Provisions:

Did not budget for Non-current Provisions. Accumulated Surplus / (Deficit):

Surplus for the current financial year exceeded the budgeted surplus.

30 June 2014

Description	Original Total Budget	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R
<b>FINANCIAL PERFORMANCE</b>							
<b>Revenue from Non-exchange Transactions</b>							
Property Rates	6 739 000	6 739 000	6 739 000	9 320 648	2 581 648	138.31	138.31
Fines	88 000	88 000	88 000	48 520	(39 480)	55.14	55.14
Licences and Permits	5 000	5 000	5 000	923	(4 077)	18.47	18.47
Government Grants and Subsidies Received	53 974 000	53 974 000	53 974 000	78 310 498	24 336 498	145.09	145.09
<b>Revenue from Exchange Transactions</b>							
Service Charges	44 223 000	44 223 000	44 223 000	37 544 476	(6 678 524)	84.90	84.90
Rental of Facilities and Equipment	424 000	424 000	424 000	268 473	(155 527)	63.32	63.32
Interest Earned - External Investments	1 352 000	1 352 000	1 352 000	1 106 751	(245 249)	81.86	81.86
Dividends Received	25 000	25 000	25 000	3 059	(21 941)	12.24	12.24
Other Income	1 781 000	1 781 000	1 781 000	726 918	(1 054 082)	40.82	40.82
Other Gains on Continued Operations	-	-	-	14 436	14 436	0.00	0.00
<b>Total Revenue</b>	<b>108 611 000</b>	<b>108 611 000</b>	<b>108 611 000</b>	<b>129 955 753</b>	<b>21 344 753</b>	<b>119.65</b>	<b>119.65</b>
<b>Expenditure</b>							
Employee Related Costs	35 970 173	31 526 839	31 526 839	26 989 224	(4 537 615)	85.61	75.03
Remuneration of Councillors	3 575 000	3 575 000	3 575 000	3 096 157	(478 843)	86.61	86.61
Depreciation and Amortisation	6 437 549	6 437 549	6 437 549	19 166 678	12 729 129	297.73	297.73
Impairment Losses	5 296 000	5 296 000	5 296 000	5 433 125	137 125	102.59	102.59
Repairs and Maintenance	-	-	-	4 393 457	4 393 457	0.00	0.00
Finance Costs	68 000	118 000	118 000	575 250	457 250	487.50	845.96
Bulk Purchases	20 701 440	22 701 440	22 701 440	22 791 967	90 527	100.40	110.10
Contracted Services	3 622 000	2 522 000	2 522 000	4 636 840	2 114 840	183.86	128.02
Grants and Subsidies Paid	-	-	-	6 221 283	6 221 283	0.00	0.00
General Expenses	36 529 464	38 693 561	38 693 561	19 045 461	(19 648 100)	49.22	52.14
<b>Total Expenditure</b>	<b>112 199 626</b>	<b>110 870 389</b>	<b>110 870 389</b>	<b>112 349 441</b>	<b>1 479 052</b>	<b>101.33</b>	<b>100.13</b>
<b>Surplus/(Deficit)</b>	<b>(3 588 626)</b>	<b>(2 259 389)</b>	<b>(2 259 389)</b>	<b>17 606 313</b>	<b>19 865 702</b>	<b>0.00</b>	<b>0.00</b>
<b>Surplus/(Deficit for the Year)</b>	<b>(3 588 626)</b>	<b>(2 259 389)</b>	<b>(2 259 389)</b>	<b>17 606 313</b>	<b>19 865 702</b>	<b>-</b>	<b>-</b>



**Financial Performance: Explanation of Variances between Approved Budget and Actual**

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Property Rates:

Increase in the rates was not budgeted for

Fines:

Fines issued/paid exceeded budgetary expectations.

Licences and Permits:

The income was less than expected.

Government Grants and Subsidies Received:

Government Grants and Subsidies Received was more than expected in relation to the previous financial year.

Service Charges:

Charges was in line with budget

Rental of Facilities and Equipment:

Rental income was less than expected

Interest Earned - External Investments:

Interest Earned exceeded the budgetary expectations due to unspent grants invested.

Dividends Received:

A dividend was over budgeted as the value of the shares in relation to the dividends expected is not reasonable.

Other Income:

Other Income received was less than budgeted and decrease from the previous financial period.

Other Gains on Continued Operations:

The increase in share value was not expected to be so high.

Employee Related Costs:

Lower than expected. High turnover of staff and increase in interns lead to the decrease

Remuneration of Councillors:

Less than expected

Depreciation and Amortisation:

Depreciation and Amortisation increased beyond budgetary expectations. Amount was not sufficiently considered

Impairment Losses:

Expectation was met and the impairment was in line with expectations.

Repairs and Maintenance:

Budget was incorrectly omitted for repairs and maintenance

Finance Costs:

Although the expense decreased in was not sufficiently budgeted for.

Contracted Services:

These expenses was classified as part of general expenses in the previous financial period and was budgeted for as such.

Grants and Subsidies Paid:

These expenses was classified as part of general expenses in the previous financial period and was budgeted for as such.

General Expenses :

Over budgeted for General Expenses due to the contracted services and the grants and subsidies paid reclassified.

30 June 2013

Description	Original Total Budget	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R
<b>FINANCIAL POSITION</b>							
<b>Current Assets</b>							
Inventories	1 950 000	1 183 750	1 183 750	373 238	(810 512)	31.53	19.14
Receivables from Exchange Transactions	26 000 000	4 269 679	4 269 679	4 225 791	(43 888)	98.97	16.25
Receivables from Non-exchange Transactions	3 098 550	13 853 127	13 853 127	622 425	(13 230 702)	4.49	20.09
VAT Receivable	-	-	-	4 478 848	4 478 848	0.00	0.00
Cash and Cash Equivalents	8 150 100	20 215 852	20 215 852	1 974 203	(18 241 649)	9.77	24.22
Current Portion of Long-term Receivables	-	1 563 447	1 563 447	-	(1 563 447)	0.00	0.00
<b>Non-Current Assets</b>							
Property, Plant and Equipment	248 321 850	626 159 345	626 159 345	612 207 868	(13 951 477)	97.77	246.54
Intangible Assets	47 250	246 358	246 358	135 081	(111 277)	54.83	285.89
Non-current Investments	45 329 000	1 825 428	1 825 428	17 696 041	15 870 613	969.42	39.04
<b>Total Assets</b>	<b>332 896 750</b>	<b>669 316 986</b>	<b>669 316 986</b>	<b>641 713 494</b>	<b>(27 603 492)</b>	<b>95.88</b>	<b>192.77</b>
<b>Current Liabilities</b>							
Consumer Deposits	736 050	668 659	668 659	614 860	(53 799)	91.95	83.54
Provisions	5 500 000	3 814 335	3 814 335	451 860	(3 362 475)	11.85	8.22
Payables from Exchange Transactions	500 000	14 096 347	14 096 347	9 963 877	(4 132 470)	70.68	1 992.78
Unspent Conditional Grants and Receipts	-	-	-	1 878 724	1 878 724	0.00	0.00
Current Portion of Long-term Liabilities	-	-	-	148 020	148 020	0.00	0.00
<b>Non-Current Liabilities</b>							
Retirement Benefit Liabilities	-	-	-	5 029 327	5 029 327	0.00	0.00
Non-current Provisions	-	42 036 164	42 036 164	7 158 484	(34 877 680)	17.03	0.00
<b>Total Liabilities</b>	<b>6 736 050</b>	<b>60 615 505</b>	<b>60 615 505</b>	<b>25 245 153</b>	<b>(35 370 352)</b>	<b>41.65</b>	<b>374.78</b>
<b>Total Assets and Liabilities</b>	<b>326 160 700</b>	<b>608 701 481</b>	<b>608 701 481</b>	<b>616 468 341</b>	<b>7 766 860</b>	<b>101.28</b>	<b>189.01</b>
<b>Net Assets (Equity)</b>							
Accumulated Surplus / (Deficit)	326 160 700	608 701 481	608 701 481	616 468 342	7 766 861	101.28	189.01
<b>Total Net Assets</b>	<b>326 160 700</b>	<b>608 701 481</b>	<b>608 701 481</b>	<b>616 468 342</b>	<b>7 766 861</b>	<b>101.28</b>	<b>189.01</b>

**Financial Position: Explanation of Variances between Approved Budget and Actual**

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

Inventories:

Inventory was impaired

Receivables from Non-exchange Transactions:

Grant receivable incorrectly recorded which lead to the budget being distorted . VAT Receivable:

Claims for Input VAT not yet paid by SARS. Cash and Cash

Equivalents:

Over budgeted. Investments included and budgeted for although they are invested for long term purposes. Current Portion

of Long-term Receivables:

Incorrectly budgeted for Intangible Assets:

Over budgeted for Intangible Assets. Provisions:

Over budgeted for Bonuses, most of which were reversed in the current financial year and classified as accruals (Payables from exchange transactions). Payables from

Exchange Transactions:

Incorrectly budgeted for

Unspent Conditional Grants and Receipts:

Over budgeted for Roll-over Projects funded from Grants. Operating Lease

Liabilities:

Did not budget for liability redemption. Retirement

Benefit Liabilities:

Discrepancy in budgetary process. Non-current

Provisions:

Discrepancy in budgetary process. Accumulated Surplus

(Deficit):

Surplus for the current financial year exceeded the budgeted surplus.

30 June 2013

Description	Original Total Budget	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R
<b>FINANCIAL PERFORMANCE</b>							
<b>Revenue from Non-exchange Transactions</b>							
Property Rates	6 381 783	6 381 783	6 381 783	7 295 013	913 230	114.31	114.31
Fines	83 371	83 371	83 371	55 510	(27 861)	66.58	66.58
Licences and Permits	5 048	5 048	5 048	1 399	(3 649)	27.72	27.72
Government Grants and Subsidies Received	53 833 000	55 008 000	55 008 000	77 839 935	22 831 935	141.51	144.60
Public Contributions and Donations	-	-	-	1 934 147	1 934 147	0.00	0.00
<b>Revenue from Exchange Transactions</b>							
Service Charges	40 406 180	40 980 214	40 980 214	23 413 848	(17 566 366)	57.13	57.95
Rental of Facilities and Equipment	353 406	377 946	377 946	288 552	(89 394)	76.35	81.65
Interest Earned - External Investments	948 600	1 210 049	1 210 049	1 201 856	(8 193)	99.32	126.70
Interest Earned - Outstanding Debtors	-	-	-	2 225 321	2 225 321	0.00	0.00
Dividends Received	8 537	19 025	19 025	10 607	(8 418)	55.75	124.25
Other Income	239 000	1 441 236	1 441 236	975 645	(465 591)	67.69	408.22
Other Gains on Continued Operations	-	-	-	7 600	7 600	0.00	0.00
<b>Total Revenue</b>	<b>102 258 925</b>	<b>105 506 672</b>	<b>105 506 672</b>	<b>115 249 432</b>	<b>9 742 760</b>	<b>109.23</b>	<b>112.70</b>
<b>Expenditure</b>							
Employee Related Costs	33 257 434	33 151 516	33 151 516	29 568 180	(3 583 336)	89.19	88.91
Remuneration of Councillors	2 599 992	2 699 992	2 699 992	3 550 594	850 602	131.50	136.56
Depreciation and Amortisation	1 298 000	1 298 000	1 298 000	19 239 967	17 941 967	1 482.28	1 482.28
Impairment Losses	10 608 054	10 608 054	10 608 054	5 200 917	(5 407 137)	49.03	49.03
Repairs and Maintenance	6 014 463	6 014 463	6 014 463	2 998 121	(3 016 342)	49.85	49.85
Finance Costs	65 896	65 896	65 896	1 410 835	1 344 939	2 141.00	2 141.00
Bulk Purchases	22 500 000	20 520 000	20 520 000	19 953 398	(566 602)	97.24	88.68
Contracted Services	6 897 060	6 897 060	6 897 060	3 927 016	(2 970 044)	56.94	56.94
Grants and Subsidies Paid	2 254 229	2 254 229	2 254 229	2 760 715	506 486	122.47	122.47
General Expenses	16 259 927	21 997 513	21 997 513	20 673 517	(1 323 997)	93.98	127.14
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	0.00	0.00
<b>Total Expenditure</b>	<b>101 755 055</b>	<b>105 506 723</b>	<b>105 506 723</b>	<b>109 283 260</b>	<b>3 776 537</b>	<b>103.58</b>	<b>107.40</b>
<b>Surplus/(Deficit)</b>	<b>503 870</b>	<b>(51)</b>	<b>(51)</b>	<b>5 966 172</b>	<b>5 966 223</b>	<b>0.00</b>	<b>1 184.07</b>
Transfers Recognised - Capital	-	-	-	-	-	0.00	0.00
<b>Surplus/(Deficit) after Capital Transfers and Surplus/(Deficit for the Year</b>	<b>503 870</b>	<b>(51)</b>	<b>(51)</b>	<b>5 966 172</b>	<b>5 966 223</b>	<b>0.00</b>	<b>1 184.07</b>
	<b>503 870</b>	<b>(51)</b>	<b>(51)</b>	<b>5 966 172</b>	<b>5 966 223</b>	<b>-</b>	<b>1 184.07</b>

**Financial Performance: Explanation of Variances between Approved Budget and Actual**

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Property Rates:

Rates were budgeted to be lower

Fines:

Fines issued/paid exceeded budgetary expectations. Licences and Permits:

Licenses and permits issued/paid exceeded budgetary expectations. Government Grants and Subsidies Received:

Capital Transfers below are included in the budget for Government Grants and Subsidies Received. Interest Earned - Outstanding Debtors:

It was budgeted only for the portion of interest expected to be paid by debtors. Dividends Received:

Dividends was over budgeted as the value of the shares in relation to the dividends expected is not reasonable. Other Income:

Other Income received was less than budgeted and decrease from the previous financial period. Other Gains on Continued Operations:

Increase in share values were not expected Employee Related Costs:

Lower than expected. High turnover of staff and increase in interns lead to the decrease Remuneration of Councillors:

More than expected. Misallocation of budget between employee cost and councillors remuneration. Depreciation and Amortisation:

Depreciation and Amortisation increased beyond budgetary expectations because of the review of remaining useful lives of assets. Impairment Losses:

Over budgeted for Impairment Losses on Receivables. Repairs and Maintenance:

Less repairs was needed than expected. Finance Costs:

Expectation was exceeded Contracted Services:

These expenses was classified as part of general expenses in the previous financial period and was incorrectly budgeted for . Grants and Subsidies Paid:

These expenses was classified as part of general expenses in the previous financial period and was incorrectly budgeted for . General Expenses :

Over budgeted for General Expenses due to the contracted services and the grants and subsidies paid reclassified. Transfers Recognised - Capital:

Capital Transfers are included in the budget for Government Grants and Subsidies Received above.



# LETSEMENG MUNICIPALITY

## ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

#### 1.1 Changes in Accounting Policy and Comparability

Accounting Policies have been consistently applied, except where otherwise indicated below.

For the years ended 30 June 2013 and 30 June 2014 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

#### 1.2 Critical Judgements, Estimations and Assumptions

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

##### 1.2.1 Revenue Recognition

Accounting Policy 8.2 on Revenue from Exchange Transactions and Accounting Policy 8.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (*Revenue from Exchange Transactions*) and GRAP 23 (*Revenue from Non-exchange Transactions*). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

##### 1.2.2 Financial Assets and Liabilities

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 6.1 on Financial Assets Classification and Accounting Policy 6.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of Financial Instruments as set out in GRAP 104 (*Financial Instruments*).

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 1.2.3 Impairment of Financial Assets

Accounting Policy 6.4 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of Financial Assets as set out in GRAP 104 (Financial Instruments) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

- Impairment of Trade Receivables:

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

#### 1.2.4 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 3.3, 4.2 and 5.2, the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

#### 1.2.5 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventories

Accounting Policy 5 on Impairment of Assets, Accounting Policy 4.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 7.2 on Inventory – Subsequent Measurement describe the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21 (Impairment of Non-cash Generating Assets) and GRAP 26 (Impairment of Cash Generating Assets). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

Estimated impairments during the year to Property, Plant and Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventory are disclosed in Notes 2, 7, 8, N/A and N/A to the Annual Financial Statements, if applicable.

#### 1.2.6 Water Inventory

The estimation of the Water Inventory in reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Accounting Policy 7.2.2.

#### 1.2.7 Defined Benefit Plan Liabilities

As described in Accounting Policy 10.2, Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.



# LETSEMENG MUNICIPALITY

## ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 1.2.8 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

### 1.2.9 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

### 1.3 Presentation Currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

### 1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a *Going Concern Basis*.

### 1.5 Offsetting

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.6 Standards, Amendments to Standards and Interpretations issued but not yet Effective

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 20 Related Party Disclosures (Revised)
- GRAP 32 Service Concession Arrangement Grantor
- GRAP 105 Transfers between Entities under common control - issued November 2010
- GRAP 106 Transfers between Entities not under common control - issued November 2010
- GRAP 107 Mergers - issued November 2010
- GRAP 108 Statutory Receivables

The Minister of Finance announced that the application of GRAP 25 will be effective for the period starting after 1 April 2013. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5, paragraph 29, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate Accounting Policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

- GRAP 20 Related Party Disclosures (Revised)

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 2. NET ASSETS

Included in the Net Assets of the municipality are the following Reserves that are maintained in terms of specific requirements:

##### **2.1 Accumulated Surplus**

Included in the Accumulated Surplus of the municipality are the following Reserves that are maintained in terms of specific requirements:

##### **2.1.1 Donations and Public Contributions Reserve**

When items of Property, Plant and Equipment are financed from public contributions and donations, a transfer is made from the Accumulated Surplus/(Deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (Circular No 18) issued by National Treasury. When such items of Property, Plant and Equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the Accumulated Surplus/(Deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of Property, Plant and Equipment financed from donations and public contributions.

When an item of Property, Plant and Equipment financed from donations and public contributions is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the Accumulated Surplus/(Deficit).

#### 3. PROPERTY, PLANT AND EQUIPMENT

##### **3.1 Initial Recognition**

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of Property, Plant and Equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Property, Plant and Equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of Property, Plant and Equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as Property, Plant and Equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of Property, Plant and Equipment, they are accounted for as Property, Plant and Equipment.

##### **3.2 Subsequent Measurement**

Subsequent expenditure relating to Property, Plant and Equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises

the part of the asset being replaced and capitalises the new component.

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of Property, Plant and Equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 3.3 Depreciation

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

	Asset Class	Years		Asset Class	Years
	<b>Buildings</b>			<b>Community</b>	
	Improvements and buildings	5 - 60		Buildings	30
	<b>Infrastructure</b>			Recreational Facilities	20 -30
	Electricity	10 - 50		Security	3 - 5
	Roads and Paving	3 - 80		<b>Other</b>	
	Sewerage / Solid Waste	5 - 50		Computer Equipment	3 - 5
	Water	5 - 50		IT Equipment	4 - 5
	<b>Infrastructure</b>			Furniture and Fittings	7 - 10
	Landfill sites	5 - 25		Motor Vehicles	
				Specialised vehicles	10 - 15
				Other vehicles	3
				Office Equipment	3 - 7
				Plant and Equipment	5 - 25
				Bins and containers	5

The assets' residual values, estimated useful lives and depreciation method are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

#### 3.4 Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

#### 3.5 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure Assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure Assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

#### 3.6 Incomplete Construction Work

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

#### 3.7 Leased Assets

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 3.8 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

#### 4. INTANGIBLE ASSETS

The municipality changed its Accounting Policy from GRAP 102 to GRAP 31 with no effect on the financial information previously disclosed.

##### 4.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets. The municipality recognises an Intangible Asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated Intangible Assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as Intangible Assets when the following criteria are fulfilled:

- (a) It is technically feasible to complete the Intangible Asset so that it will be available for use;
- (b) Management intends to complete the Intangible Asset and use or sell it;
- (c) There is an ability to use or sell the Intangible Asset;
- (d) It can be demonstrated how the Intangible Asset will generate probable future economic benefits;
- (e) Adequate technical, financial and other resources to complete the development and to use or sell the Intangible Asset are available; and
- (f) The expenditure attributable to the Intangible Asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as Intangible Assets and amortised from the point at which the asset is available for use. Development assets are tested for impairment annually, in accordance with GRAP 21 or GRAP 26.

Intangible Assets are initially recognised at cost. The cost of an Intangible Asset is the purchase price and other costs attributable to bring the Intangible Asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an Intangible Asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

The cost of an Intangible Asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 4.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an Intangible Asset at a later date.

In terms of GRAP 31, Intangible Assets are distinguished between internally generated Intangible Assets and other Intangible Assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a *Straight-line Basis* over the Intangible Assets' useful lives. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

Amortisation only commences when the asset is available for use, unless stated otherwise. The amortisation rates are based on the following estimated useful lives:

	Asset Class	Years		Asset Class	Years
	Computer Software	3			

Intangible Assets are annually tested for impairment as described in Accounting Policy 5 on Impairment of Assets, including Intangible Assets not yet available for use. Where items of Intangible Assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. The impairment loss is the difference between the carrying amount and the recoverable service amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a Change in Accounting Estimate in the Statement of Financial Performance.

#### 4.3 Derecognition

Intangible Assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an Intangible Asset is determined as the difference between the proceeds of disposal and the carrying value and is recognised in the Statement of Financial Performance.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 5. IMPAIRMENT OF ASSETS

The municipality classifies all assets held with the primary objective of generating a commercial return as *Cash Generating Assets*. All other assets are classified as *Non-cash Generating Assets*.

##### 5.1 Impairment of Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use. The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### **5.2 Impairment of Non-cash Generating Assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

#### **5.3 Provision for bad debt and bad debts written off:**

The Municipality follows a policy that is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal System Act 2000 as amended and other related legislation.

Before any debt is written off there must be proof that the debt has become irrecoverable.

Bad debts write offs must be considered in terms of cost-benefit analysis: meaning when it becomes too costly to recover and the chances of collecting the debts are slim, a write off should be considered.

Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalization of any final readings and other administrative costs results in a balance of one hundred rand (R100) or less, such account must be forwarded once to the consumer for payment.

The Accounting Officer will, after thorough review of any applicants in terms of this Policy, be delegated to write off any amounts ,outstanding for more than 365 days to the maximum of:

1.) In the case of a household consumer an amount of R100.00 (excluding interest and penalties) per submission; and 2.) In the case of a business consumer an amount of R200.00( excluding interest and penalties) per submission

Provision for bad debts on municipal accounts will therefore be calculated as follows: 1.)

Up to 90 days debt is not be considered bad,

2.) 91-120 days 25% of the debt is considered bad,

3.) 121-365 days 50% of the debt is considered bad and 4.) 365 days and more, 100% of the debt is considered bad

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 6. FINANCIAL INSTRUMENTS

The municipality has various types of Financial Instruments and these can be broadly categorised as *Financial Assets*, *Financial Liabilities* or *Residual Interests* in accordance with the substance of the contractual agreement. The municipality only recognises a Financial Instrument when it becomes a party to the contractual provisions of the instrument.

##### Initial Recognition

Financial Assets and Financial Liabilities are recognised on the municipality's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### Fair Value Methods and Assumptions

The fair values of Financial Instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

##### The Effective Interest Rate Method

The Effective Interest Method is a method of calculating the amortised cost of a Financial Asset or a Financial Liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the Financial Instrument or, when appropriate, a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

##### Amortised Cost

Amortised Cost is the amount at which the Financial Asset or Financial Liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the Effective Interest Rate Method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

#### 6.1 Financial Assets – Classification

A Financial Asset is any asset that is a cash, a contractual right to receive cash or another financial asset from another entity.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

- **Financial Assets measured at Amortised Cost** are non-derivative Financial Assets with fixed or determinable payments that are not quoted in an active market. They are included in Current Assets, except for maturities greater than 12 months, which are classified as Non-current Assets. Financial Assets at Amortised Cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. After initial recognition, Financial Assets are measured at amortised cost, using the *Effective Interest Rate Method* less a provision for impairment.
- **Financial Assets measured at Fair Value** are financial assets that meet either of the following conditions:
  - (i) Derivatives;
  - (ii) Combined instruments that are designated at fair value;
  - (iii) Instruments held for trading;
  - (iv) Non-derivative Financial Instruments with fixed or determinable payments that are designated at fair value at initial recognition; or
  - (v) Financial Instruments that do not meet the definition of Financial Instruments at Amortised Cost or Financial Instruments at Cost.
- **Financial Assets measured at Cost** are investments in residual Interest that do not have a quoted market price in inactive market and whose fair value cannot be reliably measured.



## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

The municipality has the following types of Financial Assets as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Receivables from Exchange Transactions	Financial Assets at Amortised Cost
Receivables from Non-exchange Transactions	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Share investments	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Call Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Bank	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Cash	Financial Assets at Fair Value

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Amortised Cost.

#### 6.2 Financial Liabilities – Classification

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial Liabilities may be measured at:

- (i) Financial Liabilities measured at Fair Value;
- (ii) Financial Liabilities measured at Amortised Cost; or
- (iii) Financial Liabilities measured at Cost.

The municipality has the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Payables from Exchange Transactions	Financial Liabilities at Amortised Cost
Payables from Non-exchange Transactions	Financial Liabilities at Amortised Cost

**Financial Liabilities that are measured at Fair Value** are Financial Liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of Financial Instruments where there is recent actual evidence of short-term profiteering or are derivatives).

#### 6.3 Initial and Subsequent Measurement

##### 6.3.1 Financial Assets:

##### Financial Assets measured at Amortised Cost

*Financial Assets at Amortised Cost* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the *Effective Interest Method* less any impairment, with interest recognised on an *Effective Yield Basis*.

*Trade and Other Receivables* (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as *Financial Assets at Amortised Cost*.

##### Financial Assets measured at Fair Value

*Financial Assets at Fair Value* are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 6.3.2 Financial Liabilities:

##### Financial Liabilities measured at Fair Value

*Financial Liabilities at Fair Value* are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

##### Financial Liabilities held at Amortised Cost

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Prepayments are carried at cost less any accumulated impairment losses.

#### 6.4 Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

##### 6.4.1 Financial Assets at Amortised Cost

Accounts Receivable encompasses Long-term Debtors, Receivables from Exchange Transactions (Consumer Debtors) and Receivables from Non-exchange Transactions (Other Debtors).

Initially Accounts Receivable are valued at fair value excluding transaction costs, and subsequently carried at amortised cost using the *Effective Interest Rate Method*. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

##### 6.4.2 Financial Assets at Cost

If there is objective evidence that an impairment loss has been incurred on an investment in a Residual Interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the Financial Asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### **6.5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

#### **6.6 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

### **7. INVENTORIES**

#### **7.1 Initial Recognition**

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where Inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where Inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as Inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

#### **7.2 Subsequent Measurement**

##### **7.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods**

Consumable stores, raw materials, work-in-progress, inventories distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on Inventory in the ordinary course of business). The cost is determined using the *FIFO* cost of commodities.

##### **7.2.2 Water Inventory**

Water is regarded as Inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the *FIFO Method*, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 7.2.3 Other Arrangements

Redundant and slow-moving Inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such Inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of Inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of Inventories is recognised as an expense in the period that the Inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

## 8. REVENUE RECOGNITION

### 8.1 General

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

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

*Revenue from Exchange Transactions* refers to revenue that accrued to the municipality directly in return for services rendered /goods sold, the value of which approximates the consideration received or receivable.

*Revenue from Non-exchange Transactions* refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

### 8.2 Revenue from Exchange Transactions

#### 8.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

Service charges relating to sewerage and sanitation are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 8.2.2 Prepaid Electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made seven days before year-end are recognised as an unutilised portion based on an estimate of the prepaid electricity consumed as at the reporting date.

#### 8.2.3 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

#### 8.2.4 Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

#### 8.2.5 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

#### 8.2.6 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

#### 8.2.7 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

#### 8.2.8 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- (a) The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### 8.3 Revenue from Non-exchange Transactions

An inflow of resources from a Non-exchange Transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a Non-exchange Transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

#### 8.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a *Time-proportionate Basis* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 8.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable, considering the allowance in terms of IGRAP 1 to use estimates to determine the amount of revenue that the municipality is entitled to collect.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not be made at the time of initial recognition.

#### 8.3.3 Public Contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

#### 8.3.4 Government Grants and Receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

#### 8.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 9. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

##### **9.1 Provision for Environmental Rehabilitation**

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

#### 10. EMPLOYEE BENEFIT LIABILITIES

The municipality changed its Accounting Policy from IAS 19 to GRAP 25 with no effect on the financial information previously disclosed.

##### **10.1 Short-term Employee Benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

# LETSEMENG MUNICIPALITY

## ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 10.2 Post-employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

#### 10.2.1 Defined Contribution Plans

A **Defined Contribution Plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### 10.2.2 Defined Benefit Plans

A **Defined Benefit Plan** is a post-employment benefit plan other than a defined contribution plan.

##### Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds, with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the *Projected Unit Credit Method*, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

##### Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The *Projected Unit Credit Method* is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

##### Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.



## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 11. LEASES

##### 11.1 Classification

Leases are classified as **Finance Leases** where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as **Operating Leases**.

##### 11.2 The Municipality as Lessee

###### 11.2.1 Finance Leases

Where the municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset, plus any direct costs incurred. Lease payments are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred. The accounting policies relating to **derecognition** of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

###### 11.2.2 Operating Leases

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a *Straight-line Basis* over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a *Straight-line Basis*, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### 12. VALUE ADDED TAX

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15 (2) (a) of the Value-Added Tax Act (Act No 89 of 1991).

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 13. UNAUTHORISED EXPENDITURE

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

#### 14. IRREGULAR EXPENDITURE

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 15. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and Wasteful Expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 16. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

**Changes in Accounting Policies** that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Changes in Accounting Policies are disclosed in the Notes to the Annual Financial Statements where applicable.

**Changes in Accounting Estimates** are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

**Correction of Errors** is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Correction of Errors are disclosed in the Notes to the Annual Financial Statements where applicable.

#### 17. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 18. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

**Contingent Liabilities** represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

**Contingent Assets** represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

#### 19. COMMITMENTS

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.

Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements.

Other commitments for contracts that are non-cancellable or only cancellable at significant cost, should relate to something other than the business of the municipality.

#### 20. RELATED PARTIES

The municipality changed its Accounting Policy from IPSAS 20 to GRAP 20 with no effect on the financial information previously disclosed.

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councillors, Mayor, Executive Committee Members, Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

#### 21. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

## LETSEMENG MUNICIPALITY

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

#### 22. COMPARATIVE INFORMATION

##### *22.1 Current Year Comparatives*

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the Annual Financial Statements.

##### *22.2 Prior Year Comparatives*

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

##### *22.3 Budget Information*

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2013 to 30 June 2014.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**2014**                      **2013**  
**R**                                      **R**

**1. GENERAL INFORMATION**

Letsemeng Local Municipality (the municipality) is a local government institution in Koffiefontein, Free State Province. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

**2. INVENTORIES**

Maintenance Materials	354 115	354 115
Water	19 084	19 123
<b>Total Inventories</b>	<b><u>373 198</u></b>	<b><u>373 238</u></b>
<b>Maintenance Materials</b>		
Balance at beginning of year	354 115	1 161 538
Sale/usage of inventory	-	(13 929)
Stock adjustment	-	(807 424)
Purchases made	-	13 930
Balance at end of year	<b><u>354 115</u></b>	<b><u>354 115</u></b>
<b>Water</b>		
Balance at beginning of year	19 123	22 212
Sale of inventory	(4 790 211)	(4 023 069)
Expenditure incurred	<u>4 790 172</u>	<u>4 019 980</u>
Balance at end of year	<b><u>19 084</u></b>	<b><u>19 123</u></b>

Inventories are held for own use and measured at the lower of Cost and and net realisable value. No write downs of Inventory to Net Realisable Value were required in the current period as the inventory was written down in the prior year and there was only an insignificant movement in the quantities of stock purchased and used in the current period.

No Inventories have been pledged as collateral for Liabilities of the municipality.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R	
<b>3. RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>			
	<b>Gross Balances R</b>	<b>Provision for Impairment R</b>	<b>Net Balances R</b>
<b>As at 30 June 2014</b>			
Service Debtors:	30 730 041	22 911 370	7 818 670
Electricity	2 435 979	1 666 835	769 143
Refuse	8 730 937	6 827 185	1 903 752
Sewerage	8 906 955	6 936 688	1 970 267
Water	9 980 985	7 480 662	2 500 324
Other service	675 184	-	675 184
Other Receivables	1 451 180	687 407	763 773
Other Debtors	1 451 180	687 407	763 773
<b>Total Receivables from Exchange Transactions</b>	<b>32 181 221</b>	<b>23 598 777</b>	<b>8 582 444</b>
	<b>Gross Balances R</b>	<b>Provision for Impairment R</b>	<b>Net Balances R</b>
<b>As at 30 June 2013</b>			
Service Debtors:	21 979 871	19 230 745	2 749 125
Electricity	1 836 451	1 096 639	739 812
Refuse	6 150 848	5 533 196	617 652
Sewerage	6 386 792	5 739 454	647 339
Water	6 941 497	6 217 578	723 919
Other service	664 284	643 879	20 404
Other Receivables	1 476 666	-	1 476 666
Other Debtors	1 476 666	-	1 476 666
<b>Total Receivables from Exchange Transactions</b>	<b>23 456 537</b>	<b>19 230 745</b>	<b>4 225 791</b>

Service debtors - other services include outstanding debtors for various other services, e.g. Arrangements, Deposits, Housing, Interest, Rentals and Sundry Services like Garden Refuse, Sanitation Bags, etc.

Other Receivables are in respect of cash deposits made to Eskom for the supply of electricity and other sundry debtors.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

2014  
R                      2013  
R

**3.1 Ageing of Receivables from Exchange Transactions**

As at 30 June 2014

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Electricity:</b>					
Gross Balances	176 400	124 274	108 108	2 027 196	2 435 979
Less: Provision for Impairment	-		-	1 666 835	1 666 835
<b>Net Balances</b>	<b>176 400</b>	<b>124 274</b>	<b>108 108</b>	<b>360 360</b>	<b>769 143</b>
<b>Refuse:</b>					
Gross Balances	230 498	232 886	230 419	8 037 135	8 730 937
Less: Provision for Impairment	-	-	-	6 827 185	6 827 185
<b>Net Balances</b>	<b>230 498</b>	<b>232 886</b>	<b>230 419</b>	<b>1 209 949</b>	<b>1 903 752</b>
<b>Sewerage:</b>					
Gross Balances	250 490	247 650	241 944	8 166 872	8 906 955
Less: Provision for Impairment	-	-	-	6 936 688	6 936 688
<b>Net Balances</b>	<b>250 490</b>	<b>247 650</b>	<b>241 944</b>	<b>1 230 184</b>	<b>1 970 267</b>
<b>Water:</b>					
Gross Balances	523 957	300 696	409 722	8 746 610	9 980 985
Less: Provision for Impairment	-			7 480 662	7 480 662
<b>Net Balances</b>	<b>523 957</b>	<b>300 696</b>	<b>409 722</b>	<b>1 265 948</b>	<b>2 500 324</b>
<b>Other Services:</b>					
Gross Balances	6 981	8 986	7 841	651 377	675 184
Less: Provision for Impairment	-	-	-		-
<b>Net Balances</b>	<b>6 981</b>	<b>8 986</b>	<b>7 841</b>	<b>651 377</b>	<b>675 184</b>
<b>Other Receivables</b>					
Gross Balances	-	-	-	1 451 180	1 451 180
Less: Provision for Impairment	-	-	-	687 407	687 407
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>763 773</b>	<b>763 773</b>

As at 30 June Receivables of R7 394 119 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>				
Gross Balances	914 492	998 034	29 080 370	30 992 896
Less: Provision for Impairment	-	-	23 598 777	23 598 777
<b>Net Balances</b>	<b>914 492</b>	<b>998 034</b>	<b>5 481 593</b>	<b>7 394 119</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

2014  
R                      2013  
R

As at 30 June 2013

	Current		Past Due		
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	Total
<b>Electricity:</b>					
Gross Balances	403 322	181 633	119 123	1 132 373	1 836 451
Less: Provision for Impairment	54 621	46 061	47 856	948 101	1 096 639
<b>Net Balances</b>	<b>348 701</b>	<b>135 572</b>	<b>71 267</b>	<b>184 272</b>	<b>739 812</b>
<b>Refuse:</b>					
Gross Balances	669 744	194 907	169 769	5 116 428	6 150 848
Less: Provision for Impairment	143 913	143 189	142 499	5 103 595	5 533 196
<b>Net Balances</b>	<b>525 831</b>	<b>51 718</b>	<b>27 270</b>	<b>12 833</b>	<b>617 652</b>
<b>Sewerage:</b>					
Gross Balances	692 506	198 434	176 413	5 319 439	6 386 792
Less: Provision for Impairment	144 906	144 085	143 893	5 306 570	5 739 454
<b>Net Balances</b>	<b>547 601</b>	<b>54 349</b>	<b>32 520</b>	<b>12 869</b>	<b>647 339</b>
<b>Water:</b>					
Gross Balances	761 004	272 519	184 442.80	5 723 531	6 941 497
Less: Provision for Impairment	213 065	162 725	171 968	5 669 819	6 217 578
<b>Net Balances</b>	<b>547 939</b>	<b>109 794</b>	<b>12 475</b>	<b>53 712</b>	<b>723 919</b>
<b>Other Services:</b>					
Gross Balances	-	-	-	664 284	664 284
Less: Provision for Impairment	-	-	-	643 879	643 879
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20 404</b>	<b>20 404</b>
<b>Other Receivables:</b>					
Gross Balances	-	-	-	1 476 666	1 476 666
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 476 666</b>	<b>1 476 666</b>

As at 30 June Receivables of R2 255 719 were past due but not impaired. The age analysis of these Receivables are as follows:

		Past Due		
	31 - 60 Days	61 - 90 Days	+ 90 Days	Total
<b>All Receivables:</b>				
Gross Balances	847 492	649 748	19 432 720	20 929 960
Less: Provision for Impairment	496 061	506 216	17 671 965	18 674 241
<b>Net Balances</b>	<b>351 432</b>	<b>143 532</b>	<b>1 760 756</b>	<b>2 255 719</b>



**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

2014  
R                      2013  
R

**3.2 Summary of Receivables from Exchange Transactions by Customer Classification**

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
<b>As at 30 June 2014</b>				
<i>Current:</i>				
0 - 30 days	909 090	126 222	153 014	-
<i>Past Due:</i>				
31 - 60 Days	723 000	68 998	122 297	197
61 - 90 Days	776 171	50 722	171 104	36
+ 90 Days	22 304 454	1 496 447	3 907 150	1 372 318
Sub-total	24 712 716	1 742 389	4 353 565	1 372 551
Less: Provision for Impairment	18 955 375	355 973	3 369 407	918 023
<b>Total Trade Receivables by Customer Classification</b>	<b>5 757 341</b>	<b>1 386 417</b>	<b>984 158</b>	<b>454 529</b>

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
<b>As at 30 June 2013</b>				
<i>Current:</i>				
0 - 30 days	1 492 991	716 795	316 790	-
<i>Past Due:</i>				
31 - 60 Days	358 623	357 762	131 107	-
61 - 90 Days	233 063	337 464	79 221	-
+ 90 Days	11 023 434	7 898 894	510 392	-
Sub-total	13 108 112	9 310 915	1 037 510	-
Less: Provision for Impairment	12 843 923	5 746 494	640 329	-
<b>Total Trade Receivables by Customer Classification</b>	<b>264 189</b>	<b>3 564 421</b>	<b>397 181</b>	<b>-</b>

2014  
R                      2013  
R

**3.3 Reconciliation of the Provision for Impairment**

Balance at beginning of year	19 230 746	19 374 338
Contribution to allowance	5 502 218	3 641 541
Impairment Losses reversed	-	-
Amounts written off as uncollectable	(1 134 187)	(3 785 133)
Amounts recovered	-	-
<b>Balance at end of year</b>	<b>23 598 777</b>	<b>19 230 746</b>

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment. Refer to details in the accounting policy for further details.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R	
<b>4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>			
	<b>Gross Balances R</b>	<b>Provision for Impairment R</b>	<b>Net Balances R</b>
<b>As at 30 June 2014</b>			
Assessment Rates Debtors	11 924 740	8 714 958	3 209 782
Payments made in Advance	500 000	-	500 000
<b>Total Receivables from Non-exchange Transactions</b>	<b><u>12 424 740</u></b>	<b><u>8 714 958</u></b>	<b><u>3 709 782</u></b>
	<b>Gross Balances R</b>	<b>Provision for Impairment R</b>	<b>Net Balances R</b>
<b>As at 30 June 2013</b>			
Assessment Rates Debtors	8 272 290	7 649 865	622 425
Grants receivable	-	-	-
<b>Total Receivables from Non-exchange Transactions</b>	<b><u>8 272 290</u></b>	<b><u>7 649 865</u></b>	<b><u>622 425</u></b>

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

2014  
R

2013  
R

**4.1 Ageing of Receivables from Non-exchange Transactions**

As at 30 June 2014

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Assessment Rates:</b>					
Gross Balances	420 145	457 411	376 059	10 671 126	11 924 740
Less: Provision for Impairment	-	-	-	8 714 958	8 714 958
<b>Net Balances</b>	<b>420 145</b>	<b>457 411</b>	<b>376 059</b>	<b>1 956 168</b>	<b>3 209 782</b>

**Payments made in Advance:**

Gross Balances	500 000	-	-	-	500 000
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>500 000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>500 000</b>

As at 30 June Receivables of R2 789 638 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>				
Gross Balances	457 411	376 059	10 671 126	11 504 596
Less: Provision for Impairment	-	-	8 714 958	8 714 958
<b>Net Balances</b>	<b>457 411</b>	<b>376 059</b>	<b>1 956 168</b>	<b>2 789 638</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

2014  
R                      2013  
R

As at 30 June 2013

Current	Past Due			Total
0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	

**Assessment Rates:**

Gross Balances	247 637	130 070	722 224	7 172 359	8 272 290
Less: Provision for Impairment		18 741	722 224	6 908 900	7 649 865
<b>Net Balances</b>	<b>247 637</b>	<b>111 329</b>	<b>-</b>	<b>263 459</b>	<b>622 425</b>

As at 30 June Receivables of R374 788 were past due but not impaired. The age analysis of these Receivables are as follows:

Past Due			Total
31 - 60 Days	61 - 90 Days	+ 90 Days	

**All Receivables:**

Gross Balances	130 070	722 224	7 172 359	8 024 653
Less: Provision for Impairment	18 741	722 224	6 908 900	7 649 865
<b>Net Balances</b>	<b>111 329</b>	<b>-</b>	<b>263 459</b>	<b>374 788</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**2014**                      **2013**  
**R**                              **R**

**2014**                      **2013**  
**R**                              **R**

**4.2 Reconciliation of Provision for Impairment**

Balance at beginning of year	7 649 865	5 521 815
Impairment Losses recognised	1 031 938	2 128 050
Impairment Losses reversed	-	-
Amounts written off as uncollectable	33 155	-
Amounts recovered	-	-
<b>Balance at end of year</b>	<b>8 714 958</b>	<b>7 649 865</b>

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

**5. VAT RECEIVABLE**

Vat Receivable	<b>1 817 160</b>	<b>4 478 848</b>
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Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>6. CASH AND CASH EQUIVALENTS</b>		
Current Investments	-	1 973 513
Bank Accounts	15 032 025	690
Cash and Cash Equivalents	810	
	<u>15 032 834</u>	<u>1 974 203</u>
<b>Total Bank, Cash and Cash Equivalents</b>	<b><u>15 032 834</u></b>	

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand and Cash in Banks, net of outstanding Bank Overdrafts.

**6.1 Bank Accounts**

Cash in Bank	15 032 025	1 973 513
	<u>15 032 025</u>	<u>1 973 513</u>
<b>Total Bank Accounts</b>	<b><u>15 032 025</u></b>	

The Municipality has the following bank accounts:

**Primary Bank Account**

<i>First National Bank - Current Account Number 527115689918 and ABSA Bank - Current Account number 4048034774 :</i>		8 437 835
Cash book balance at beginning of year	1 973 513	<u>1 973 513</u>
Cash book balance at end of year	<u>15 032 025</u>	
		8 501 875
Bank statement balance at beginning of year	1 901 060	<u>1 901 060</u>
Bank statement balance at end of year	<u>16 027 494</u>	

The municipality maintains one cash book for its primary bank account with First National Bank and the ABSA bank account.

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

**6.2 Cash and Cash Equivalents**

Cash Floats and Advances	810	690
	<u>810</u>	<u>690</u>
<b>Total Cash on hand in Cash Floats, Advances and Equivalents</b>	<b><u>810</u></b>	

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**7 PROPERTY, PLANT AND EQUIPMENT**

30 June 2014

**Reconciliation of Carrying Value**

Description	Land	Buildings	Land and Buildings	Infra-structure	Other	Total
	R	R	R	R	R	R
<b>Carrying values at 01 July 2013</b>	<b>98 544 657</b>	<b>36 728 655</b>	<b>135 273 312</b>	<b>468 482 492</b>	<b>8 452 063</b>	<b>612 207 868</b>
Cost	98 544 657	61 402 362	159 947 019	676 229 359	13 176 635	849 353 013
- Completed Assets	98 544 657	49 816 928	148 361 585	668 322 285	13 176 635	829 860 505
- Under Construction	-	11 585 434	11 585 434	7 907 074	-	19 492 508
Accumulated Depreciation:	-	(24 673 707)	(24 673 707)	(207 746 867)	(4 724 572)	(237 145 146)
- Cost	-	(24 673 707)	(24 673 707)	(207 746 867)	(4 724 572)	(237 145 146)
Acquisitions	-	1 503 622	1 503 622	9 387 538	852 569	11 743 729
Capital under Construction - Additions:	-	3 891 946	3 891 946	4 444 970	-	8 336 915
- Cost	-	3 891 946	3 891 946	4 444 970	-	8 336 915
Depreciation:	-	(880 425)	(880 425)	(17 123 795)	(1 103 184)	(19 107 404)
- Based on Cost	-	(880 425)	(880 425)	(17 123 795)	(1 103 184)	(19 107 404)
Capital under Construction - Completed	-	(11 585 434)	(11 585 434)	-	-	(11 585 434)
Other Movements	-	11 585 434	11 585 434	-	-	11 585 434
- Cost	-	11 585 434	11 585 434	-	-	11 585 434
<b>Carrying values at 30 June 2014</b>	<b>98 544 657</b>	<b>41 243 797</b>	<b>139 788 455</b>	<b>465 191 205</b>	<b>8 201 448</b>	<b>613 181 108</b>
Cost	98 544 657	66 797 929	165 342 587	690 061 867	14 029 204	869 433 658
- Completed Assets	98 544 657	62 905 984	161 450 641	677 709 823	14 029 204	853 189 668
- Under Construction	-	3 891 946	3 891 946	12 352 044	-	16 243 989
Accumulated Depreciation:	-	(25 554 132)	(25 554 132)	(224 870 662)	(5 827 756)	(256 252 549)

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

**7 PROPERTY, PLANT AND EQUIPMENT (Continued)**

30 June 2013

**Reconciliation of Carrying Value**

Description	Land	Buildings	Land and Buildings	Infra-structure	Other	Total
	R	R	R	R	R	R
<b>Carrying values at 01 July 2012</b>	<b>98 465 307</b>	<b>25 855 412</b>	<b>124 320 719</b>	<b>477 250 627</b>	<b>6 703 164</b>	<b>608 274 510</b>
Cost	98 465 307	49 654 647	148 119 954	668 322 285	9 991 950	826 434 189
- Completed Assets	98 465 307	49 654 647	148 119 954	668 322 285	9 991 950	826 434 189
- Under Construction	-	-	-	-	-	-
Accumulated Depreciation:	-	(23 799 235)	(23 799 235)	(191 071 658)	(3 288 786)	(218 159 679)
- Cost	-	(23 799 235)	(23 799 235)	(191 071 658)	(3 288 786)	(218 159 679)
Acquisitions	79 350	162 281	241 631	-	3 184 685	3 426 316
Capital under Construction - Additions:	-	11 585 434	11 585 434	7 907 074	-	19 492 508
- Cost	-	11 585 434	11 585 434	7 907 074	-	19 492 508
Depreciation:	-	(874 472)	(874 472)	(16 675 209)	(1 435 786)	(18 985 467)
- Based on Cost	-	(874 472)	(874 472)	(16 675 209)	(1 435 786)	(18 985 467)
<b>Carrying values at 30 June 2013</b>	<b>98 544 657</b>	<b>36 728 655</b>	<b>135 273 312</b>	<b>468 482 492</b>	<b>8 452 063</b>	<b>612 207 868</b>
Cost	98 544 657	61 402 362	159 947 019	676 229 359	13 176 635	849 353 013
- Completed Assets	98 544 657	49 816 928	148 361 585	668 322 285	13 176 635	829 860 505
- Under Construction	-	11 585 434	11 585 434	7 907 074	-	19 492 508
Accumulated Depreciation:	-	(24 673 707)	(24 673 707)	(207 746 867)	(4 724 572)	(237 145 146)

None of the tangible assets were pledged as security during the current and previous year.



**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

2014  
R

2013  
R

**7 PROPERTY, PLANT AND EQUIPMENT (Continued)**

**7.1 Land and Buildings carried at Fair Value**

The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.

**8 INTANGIBLE ASSETS**

At Cost less Accumulated Amortisation and Accumulated Impairment Losses

190 753      135 081

The movement in Intangible Assets is reconciled as follows:

	Computer Software	Total
<b>Carrying values at 01 July 2013</b>	<b>135 081</b>	<b>135 081</b>
Cost	837 619	837 619
Work-in-Progress	-	-
Accumulated Amortisation	(702 538)	(702 538)
Acquisitions:	114 946	114 946
Purchased	114 946	114 946
Work-in-Progress	-	-
Amortisation:	(59 274)	(59 274)
Purchased	(59 274)	(59 274)
Internally Developed	-	-
<b>Carrying values at 30 June 2014</b>	<b>190 753</b>	<b>190 753</b>
Cost	952 565	952 565
Work-in-Progress	-	-
Accumulated Amortisation	(761 812)	(761 812)
	<b>Computer Software</b>	<b>Total</b>
<b>Carrying values at 01 July 2012</b>	<b>337 368</b>	<b>337 368</b>
Cost	785 406	785 406
Work-in-Progress	-	-
Accumulated Amortisation	(448 038)	(448 038)
Acquisitions:	143 223	143 223
Purchased	143 223	143 223
Amortisation:	(254 500)	(254 500)
Purchased	(254 500)	(254 500)
Internally Developed	-	-
<b>Carrying values at 30 June 2013</b>	<b>135 081</b>	<b>135 081</b>
Cost	837 619	837 619
Work-in-Progress	-	-
Accumulated Amortisation	(702 538)	(702 538)

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 30).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>9 NON-CURRENT INVESTMENTS</b>		
<b>Unlisted</b>		
Investment in OVK and Senwes - at fair value	107 225	92 750
	<u>107 225</u>	<u>92 750</u>
<b>Financial Instruments</b>		
Money Market Investments	18 302 064	17 603 291
<b>Total Investments</b>	<u>18 409 289</u>	<u>17 696 041</u>
All Investments	18 409 289	17 696 041
Less: Short-term Portion transferred to Current Investments	-	-
<b>Total Non-current Investments</b>	<u>18 409 289</u>	<u>17 696 041</u>

Unlisted Investments comprise the following:  
(i) Investments in OVK and Senwes as described below:

**9.1 Investment in OVK and Senwes shares**

Share Capital (shares) - OVK	4 000	4 000
Share Capital (shares) - Senwes	3 600	3 600
Share Capital (shares) - Senwes Beleggings Limited	4 990	4 990
Share Capital (R per share) - OVK	10.72	7.50
Share Capital (R per share) - Senwes	10.25	10.50
Share Capital (R per share) - Senwes Beleggings Limited	5.50	5.00

This comprises of a non-controlling interest of 3,600 shares in Senwes Limited , 4,990 shares in Senwes Beleggings Limited and 4000 shares in OVK, which are recognised at fair value. The shares are valued as per valuation obtained from the Senwes and OVK Transfer Secretaries as at 30 June 2014.

**9.2 Money Market Investments**

These are money market instruments placed with local financial institutions.

<i>FNB Account Number 62273244849</i>	18 302 064	17 603 291
Average interest rate for the period	4.25%	5.14%

**Cash and cash equivalents pledged as collateral**

Total financial assets pledged as collateral for overdraft facility	1 670 000	1 670 000
An investment account was opened, ceded and pledged as security for the duration of overdraft facility.		

**10 CONSUMER DEPOSITS**

Electricity and Water	744 824	614 860
<b>Total Consumer Deposits</b>	<u>744 824</u>	<u>614 860</u>

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are

No interest is paid on Consumer Deposits held.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>11 PROVISIONS</b>		
Annual Bonuses	-	-
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 15)	351 156	334 860
Current Portion of Long-term Service Liability (See Note 15)	184 219	117 000
<b>Total Provisions</b>	<b>535 375</b>	<b>451 860</b>
	<b>Long-term Service</b>	<b>Post-retirement</b>
	R	R
<b>30 June 2014</b>		
Balance at beginning of year	117 000	334 860
Transfer from non-current	67 219	16 296
<b>Balance at end of year</b>	<b>184 219</b>	<b>351 156</b>
	<b>Long-term Service</b>	<b>Post-retirement</b>
	R	R
<b>30 June 2013</b>		
Balance at beginning of year	196 000	343 000
Expenditure incurred	(79 000)	-
Reduction due to re-measurement		(8 140)
<b>Balance at end of year</b>	<b>117 000</b>	<b>334 860</b>
	<b>2014</b>	<b>2013</b>
	R	R
<b>12 PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Staff Leave	1 836 474	4 271 278
Staff Bonuses	589 882	650 886
Deferred Revenue	50 919	150 461
Retentions	404 544	-
Payments Received In Advance	1 109 876	257 164
Sundry Deposits	1 463	1 860
Other Creditors	1 106 471	-
Sundry Creditors	4 588 941	4 632 229
<b>Total Payables</b>	<b>9 688 568</b>	<b>9 963 877</b>

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

The Deferred revenue arises from pre-paid electricity sold in the current year that was not consumed before the end of June 2014.

**13 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

**13.1 Conditional Grants from Government**

	13 713 326	1 878 724
National Government Grants	-	-
Provincial Government Grants	13 713 326	1 878 724
<b>Total Conditional Grants and Receipts</b>	<b>13 713 326</b>	<b>1 878 724</b>

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 21 for the reconciliation of Grants from Government and Note 22 for the reconciliation of Other Conditional Receipts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>14 LONG-TERM LIABILITIES</b>		
The municipality did not have any liabilities to be classified as Long-term Liabilities in terms of its Accounting Policies and Cash Management Policy at year-end.		
Annuity Loans	-	104 626
Finance Lease Liabilities	-	43 395
Sub-total	-	148 020
Less: Current Portion transferred to Current Liabilities:-	-	(148 020)
Annuity Loans	-	(104 626)
Finance Lease Liabilities	-	(43 395)
<b>Total Long-term Liabilities</b> (Neither past due, nor impaired)	-	-

**14.1 Summary of Arrangements**

The Annuity Loan relates to embedded loans advanced towards the installation of the municipality's communication and access control equipment, is repaid over a period of 3 (2013: 3) years with an interest rate that is linked to the prime lending rate per annum. The Annuity Loan is not secured.

Finance Lease Liabilities relates to Copiers and Security Equipment with lease terms of 2 - 3 (2013: 2 - 3) years. The effective interest rate on Finance Leases is 9% (2013: 9%). Capitalised Lease Liabilities are secured over the items of Copiers and Security Equipment leased.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

The obligations under Finance Leases are as follows:

	<b>Minimum Lease Payments</b>		<b>Present Value of Minimum Lease Payments</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>Amounts payable under finance leases:</b>				
Within one year	-	45 143	-	45 143
In the second to fifth years, inclusive	-	-	-	-
Over five years	-	-	-	-
	-	45 143	-	45 143
Less: Future Finance Obligations	-	1 748	-	1 748
<b>Present Value of Minimum</b>	-	<b>43 395</b>	-	<b>43 395</b>
Less: Amounts due for settlement within 12 months (Current Portion)			-	(43 395)
<b>Finance Lease Obligations due for settlement after 12 months (Non-current Portion)</b>			-	-

The municipality has finance lease agreements for the following significant classes of assets:

- Office Equipment

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>15 EMPLOYEE BENEFIT LIABILITIES</b>		
Post-retirement Health Care Benefits Liability	3 810 833	3 603 327
Long Service Awards Liability	1 605 318	1 426 000
<b>Total Employee Benefit Liabilities</b>	<b>5 416 151</b>	<b>5 029 327</b>
<b>15.1 Post-retirement Health Care Benefits Liability</b>		
Balance at beginning of Year	3 938 187	4 176 315
Contributions to Provision	223 802	
Reduction due to Re-measurement	-	(238 128)
Balance at end of Year	4 161 989	3 938 187
Transfer to Current Provisions	(351 156)	(334 860)
<b>Total Post-retirement Health Care Benefits Liability</b>	<b>3 810 833</b>	<b>3 603 327</b>

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by Mr Chanan Weiss BSc FFA, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	1	1
In-service Non-members (Employees)	3	3
Continuation Members (Retirees, widowers and orphans)	14	14
<b>Total Members</b>	<b>18</b>	<b>18</b>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Hosmed
- LA Health
- Key Health

The Current-service Cost for the year ending 30 June 2014 is estimated to be R19 012, whereas the cost for the ensuing year is estimated to be R 19 010 (30 June 2013: R19 159 and R19 012 respectively).

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

Discount Rate	8.18%	7.25%
Health Care Cost Inflation Rate	7.66%	6.75%
Net Effective Discount Rate	0.48%	0.47%
Expected Retirement Age - Females	65	65
Expected Retirement Age - Males	65	65

**Discount Rate** - The rate is calculated by using a weighted average of yields for the two components (In-service members' retirement liability and Continuation members' liability) of the liability. Each component's fixed-interest (8.57% and 8.14%) and index-linked yield (1.62% and 1.41%) was taken from the JSE (Best Decency) Zero Coupon bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

**Movements in the present value of the Defined Benefit Obligation were as follows:**

Balance at the beginning of the year	3 938 187	4 176 315
Current service costs	19 012	19 159
Interest cost	283 691	278 727
Benefits paid	(334 860)	(343 236)
Actuarial losses / (gains)	255 959	(192 778)
<b>Total Recognised Benefit Liability</b>	<b>4 161 989</b>	<b>3 938 187</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>		
Present value of fund obligations	4 161 989	3 938 187
Unfunded Accrued Liability	4 161 989	3 938 187
<b>Total Benefit Liability</b>	<b>4 161 989</b>	<b>3 938 187</b>

<b>The amounts recognised in the Statement of Financial Performance are as follows:</b>		
Current service cost	19 012	19 159
Interest cost	283 691	278 727
Benefits paid	(334 860)	(343 236)
Actuarial losses / (gains)	255 959	(192 778)
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 28)</b>	<b>223 802</b>	<b>-238 128</b>

The history of experienced adjustments is as follows:

	2013 R	2012 R	2011 R	2010 R
Present Value of Defined Benefit Obligation	3 938 000	6 404 000	6 019 000	5 623 000
Fair Value of Plan Assets	-	-	-	-
<b>Deficit</b>	<b>3 938 000</b>	<b>6 404 000</b>	<b>6 019 000</b>	<b>5 623 000</b>
Experienced adjustments on Plan Liabilities	217 000	(146 000)	-	-
Experienced adjustments on Plan Assets	-	-	-	-

**15.2 Long Service Awards Liability**

Balance at beginning of year	1 543 000	1 366 000
Contributions to provision	246 537	177 000
Balance at end of Year	<b>1 789 537</b>	<b>1 543 000</b>
Transfer to Current Provisions	(184 219)	(117 000)
<b>Total Long Service Awards Liability</b>	<b>1 605 318</b>	<b>1 426 000</b>

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable every 5 years of continuous service to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on 30 June 2014 by Mr Chanan Weiss BSc FFA, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Current-service Cost for the year ending 30 June 2014 is estimated to be R413 000, whereas the cost for the ensuing year is estimated to be R251 665 (30 June 2013: R320 000 and R413 000 respectively).

	2014 R	2013 R
<b>The principal assumptions used for the purposes of the actuarial valuations were as follows:</b>		
Discount Rate	7.92%	7.25%
Cost Inflation Rate	7.09%	7.15%
Net Effective Discount Rate	0.78%	0.47%
Expected Retirement Age - Females	65	65
Expected Retirement Age - Males	65	65

**Discount Rate** - This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.25%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2014.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>Movements in the present value of the Defined Benefit Obligation were as follows:</b>		
Balance at the beginning of the year	1 543 000	1 366 000
Current service costs	413 000	320 000
Interest cost	108 000	105 000
Benefits paid	(117 000)	(211 000)
Actuarial losses / (gains)	(157 463)	(37 000)

<b>Total Recognised Benefit Liability</b>	<b>1 789 537</b>	<b>1 543 000</b>
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**The amounts recognised in the Statement of Financial Position are as follows:**

Present value of fund obligations	1 789 537	1 543 000
Unfunded Accrued Liability	1 789 537	1 543 000
<b>Total Benefit Liability</b>	<b>1 789 537</b>	<b>1 543 000</b>

**The amounts recognised in the Statement of Financial Performance are as follows:**

Current service cost	413 000	320 000
Interest cost	108 000	105 000
Actuarial losses / (gains)	(157 463)	(37 000)
Benefits paid	(117 000)	(211 000)

<b>Total Post-retirement Benefit included in Employee Related Costs (Note 28)</b>	<b>246 537</b>	<b>177 000</b>
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**The history of experienced adjustments is as follows:**

	2014 R	2013 R	2012 R	2011 R
Present Value of Defined Benefit Obligation	1 789 537	1 543 000	1 366 000	1 063 000
<b>Deficit</b>	<b>1 789 537</b>	<b>1 543 000</b>	<b>1 366 000</b>	<b>1 063 000</b>
Experienced adjustments on Plan Liabilities	(55 730)	(161)	24	

**16 NON-CURRENT PROVISIONS**

Provision for Rehabilitation of Land-fill Sites	7 637 387	7 158 484
<b>Total Non-current Provisions</b>	<b>7 637 387</b>	<b>7 158 484</b>

**The movement in the Provision for Rehabilitation of Land-fill Sites is reconciled as follows:**

Balance at beginning of year (restated)	7 158 484	6 709 611
Increase due to discounting	478 903	448 873
Reduction due to re-measurement	-	-
	7 637 387	7 158 484
Transfer to current provisions	-	-
<b>Balance at end of year</b>	<b>7 637 387</b>	<b>7 158 484</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	<b>2014</b>	<b>2013</b>	
	<b>R</b>	<b>R</b>	
			<b>Land-fill Sites</b>
			<b>R</b>
<b>30 June 2014</b>			
Balance at beginning of year		7 158 484	
Increase due to discounting		478 903	
		<u>7 637 387</u>	
Transfer to current provisions		-	
<b>Balance at end of year</b>		<u><b>7 637 387</b></u>	
			<b>Land-fill Sites</b>
			<b>R</b>
<b>30 June 2013</b>			
Balance at beginning of year		25 756 453	
Movement in provision as stated in 2012/2013 Financial Statements		(2 443 150)	
Reduction due to re-measurement - capitalised to assets		<u>(16 603 692)</u>	
Restated opening balance		6 709 611	
Increase due to discounting		448 873	
		<u>7 158 484</u>	
Transfer to current provisions		-	
<b>Balance at end of year</b>		<u><b>7 158 484</b></u>	

**16.1 Rehabilitation of Land-fill Sites**

In terms of the licencing of the landfill refuse sites, the municipality will incur licencing and rehabilitation costs of R7 637 387 (2013: R7 158 484) to restore the sites at the end of their useful lives. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate adjusted for municipal specific risks.

The inflation rate used to calculate the cost to rehabilitate the landfill sites at the end of their useful lives is 6%. The discounting rate of 6.69% was calculated as the Weighted Average Cost of Capital (4.15%) adjusted for risks specific to the municipality. The main risks included in the discounting rate adjustment is census information on the equitable share which shows a decrease in the future equitable shares and the risk that money market investments won't be sufficient to rehabilitate the sites if its the only funding used to settle the rehabilitation costs.

The Provision has been restated at the beginning of the previous financial period due to new information received and change in the discount rate used by the valuers to calculate the net present value of the liability. Refer to note 39.

The municipality will incur rehabilitation cost on its five dumping/landfill sites in the periods ranging between 2031/32 and 2038/39. Provision has been made for the net present value of this cost.

	<b>Proposed Rehabilitation</b>			
Jacobsdal landfill	2031/2032	2 185 731		2 048 675
Koffiefontein landfill	2038/2039	1 416 683		1 327 850
Luckhoff landfill	2028/2029	1 172 654		1 099 123
Oppermansdorp landfill	2032/2033	1 338 069		1 254 165
Petrusburg landfill	2033/2034	1 524 250		1 428 672
		<u>7 637 387</u>		<u>7 158 484</u>



**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>17 ACCUMULATED SURPLUS</b>		
<b>The Accumulated Surplus consists of the following Internal Funds and Reserves:</b>		
Donations and Public Contributions Reserve	2 022 113	2 022 113
Accumulated Surplus / (Deficit) due to the results of Operations	621 538 825	614 446 230
<b>Total Accumulated Surplus</b>	<b>623 560 938</b>	<b>616 468 342</b>

The **Donations and Public Contributions Reserve** equals the carrying value of the items of property, plant and equipment financed from public contributions and donations. The Donations and Public Contributions Reserve ensures consumer equity and is not backed by cash.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

**18 PROPERTY RATES**

	<b>Property Valuations</b>		<b>Actual Levies</b>	
	<b>July 2014</b>	<b>July 2013</b>		
	<b>R000's</b>	<b>R000's</b>		
Agricultural	1 671 639	1 493 626	2 280 364	2 741 323
Commercial	163 187	73 539	2 199 896	1 043 412
Industrial				-
Municipal	368 086	117 957	-	-
Residential	543 576	341 471	4 067 136	2 726 746
State	87 817	121 763	925 395	783 532
Consent Use	-			-
Undeveloped	52 579	120 595		-
			(152 143)	
<b>Total Property Rates</b>	<b>2 886 883</b>	<b>2 268 951</b>	<b>9 320 648</b>	<b>7 295 013</b>

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2004. A general valuation has been performed during the financial year and will be applied with effect 1 July 2008.

A uniform rate of 0.41 c/R (2012/13: 0.32 c/R) is applied on property valuations in terms of the Property Rates Act to determine assessment rates.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 0.011 c/R (2012/13: 0,09469 c/R)

Business Properties: 0.012 c/R (2012/13: 1,8937 c/R)

Agricultural Properties: 0,2367 c/R (2012/13: 0,2367 c/R)

A rebate of 8.33% (2012/13: 7.5%) was allowed on residential properties whilst a discount of 8.33% (2012/13: 7.5%) was granted on properties owned by the State.

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

**19 FINES**

Court Fines	48 520	55 510
<b>Total Fines</b>	<b>48 520</b>	<b>55 510</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>20 LICENCES AND PERMITS</b>		
Other Licences and Permits	923	1 399
<b>Total Licences and Permits</b>	<b>923</b>	<b>1 399</b>

**21 GOVERNMENT GRANTS AND SUBSIDIES**

National Equitable Share	50 434 000	50 508 243
Other Subsidies	-	-
<b>Operational Grants</b>	<b>50 434 000</b>	<b>50 508 243</b>
<b>Conditional Grants</b>	<b>27 876 498</b>	<b>27 331 692</b>
National: Equitable Share	-	-
National: EPWP	1 000 000	1 073 750
National: FMG	1 650 000	1 500 000
National: MIG	20 236 372	22 090 000
National: MSIG	890 000	800 000
Provincial: Department Transport	-	78 026
Provincial: Department of Local Government	347 320	712 680
National: DWA - Department of Water Affairs	2 292 181	1 077 236
Local Government: Department of Water	1 460 625	-
<b>Total Government Grants and Subsidies</b>	<b>78 310 498</b>	<b>77 839 935</b>
<b>Government Grants and Subsidies:</b>		
Conditional Grants - Capital	3 887 320	2 577 236
Conditional Grants - Operational	23 989 178	24 754 456
Unconditional Grants - Capital	-	-
Unconditional Grants - Operational	50 434 000	50 508 243
<b>Total Government Grants and Subsidies</b>	<b>78 310 498</b>	<b>77 839 935</b>
<b>Summary of Transfers:</b>		
Conditions met - transferred to Revenue: Operating Expenses	3 887 320	2 577 236
Conditions met - transferred to Revenue: Capital Expenses	23 989 178	24 754 456
<b>Total Transfers</b>	<b>27 876 498</b>	<b>27 331 692</b>

**Operational Grants:**

<b>21.2 National: Equitable Share</b>	<b>50 434 000</b>	<b>50 508 243</b>
---------------------------------------	-------------------	-------------------

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R166 (2013: R156), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity (indigents only) free every month. No funds have been withheld.

**21.3 Provincial: Health Subsidies**

Balance unspent at beginning of year	115 000	
Current year receipts - included in Public Health vote		115 000
Conditions met - transferred to Revenue		-
Other Adjustments/Refunds	-	
Conditions still to be met - transferred to Current Assets (see Note 4)	<b>115 000</b>	<b>115 000</b>

This grant has been used to fund environmental health care services (included in Appendix "D"), which services are in a process of being transferred to Provincial Government. This grant will then fall away. No funds have been withheld.

**Conditional Grants:**

**21.4 National: EPWP Grant**

Balance unspent at beginning of year	-	-
Current year receipts	1 000 000	1 073 750
Conditions met - transferred to Revenue: Operating Expenses	(1 000 000)	(1 073 750)
Conditions still to be met - transferred to Liabilities (see Note 13)	-	-

The Expanded Public Works Programme Grant was allocated to the municipality for environmental and water infrastructure projects. No amount was withheld during the year.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>21.5 National: FMG Grant</b>		
Balance unspent at beginning of year	-	-
Current year receipts	1 650 000	1 500 000
Conditions met - transferred to Revenue: Operating Expenses	<u>(1 650 000)</u>	<u>(1 500 000)</u>
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>-</u>	<u>-</u>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

<b>21.6 National: MIG Funds</b>		
Balance unspent at beginning of year	-	-
Current year receipts	20 972 000	22 090 000
Conditions met - transferred to Revenue: Capital Expenses	<u>(20 236 372)</u>	<u>(22 090 000)</u>
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>735 628</u>	<u>-</u>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

<b>21.7 National: MSIG Funds</b>		
Balance unspent at beginning of year	-	-
Current year receipts	890 000	800 000
Conditions met - transferred to Revenue: Capital Expenses	<u>(890 000)</u>	<u>(800 000)</u>
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>-</u>	<u>-</u>

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

<b>21.8 National: Cooperative Government &amp; Traditional Affairs (COGTA)</b>		
Balance unspent at beginning of year	347 320	-
Current year receipts	-	1 060 000
Conditions met - transferred to Revenue: Operating Expenses	<u>(347 320)</u>	<u>(712 680)</u>
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>-</u>	<u>347 320</u>

This grant was received for the payment of the CFO's salary. No funds were withheld.

<b>21.9 National: Department Water Affairs (DWA) - Other Capital Projects</b>		
Balance unspent at beginning of year	-	-
Current year receipts	13 334 000	-
Conditions met - transferred to Revenue: Capital Expenses	<u>(2 292 181)</u>	<u>-</u>
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>11 041 819</u>	<u>-</u>

To facilitate the planning, acceleration and implementation of various projects that will insure water supply to communities identified as not receiving a basic water supply service.

<b>21.10 Provincial: Accelerated Community Development Programme (ACIP)</b>		
Balance unspent at beginning of year	-	-
Current year receipts	1 865 100	-
Conditions met - transferred to Revenue: Operating Expenses	<u>(1 460 625)</u>	<u>-</u>
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>404 475</u>	<u>-</u>

The purpose of this grant is for the upgrading of the Koffiefontein sewer pump system.

**22 PUBLIC CONTRIBUTIONS AND DONATIONS**

Conditional Contributions:	-	-
Unconditional Contributions	-	-
Other Donations	-	1 934 147
<b>Total Public Contributions and Donations</b>	<u>-</u>	<u>1 934 147</u>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>23 SERVICE CHARGES</b>		
Sale of Electricity	14 670 986	14 037 990
Sale of Water	7 395 630	4 466 907
Refuse Removal	7 755 852	2 335 976
Sewerage and Sanitation Charges	7 722 008	2 572 976
<b>Total Service Charges</b>	<b><u>37 544 476</u></b>	<b><u>23 413 848</u></b>
<p>The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.</p>		
<b>24 RENTAL OF FACILITIES AND EQUIPMENT</b>		
Rental Revenue from Buildings	206 170	258 382
Rental Revenue from Halls	62 304	30 170
<b>Total Rental of Facilities and Equipment</b>	<b><u>268 473</u></b>	<b><u>288 552</u></b>
<p>Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.</p>		
<b>25 INTEREST EARNED</b>		
<b>External Investments:</b>		
Investments	1 106 751	1 201 856
	<b><u>1 106 751</u></b>	<b><u>1 201 856</u></b>
<b>Outstanding Debtors:</b>		
Outstanding Billing Debtors	2 611 052	2 225 321
	<b><u>2 611 052</u></b>	<b><u>2 225 321</u></b>
<b>Total Interest Earned</b>	<b><u>3 717 802</u></b>	<b><u>3 427 176</u></b>
<b>26 DIVIDENDS RECEIVED</b>		
Dividends Received	3 059	10 607
<b>Total Dividends Received</b>	<b><u>3 059</u></b>	<b><u>10 607</u></b>
<b>27 OTHER REVENUE</b>		
Administration Fees	253 242	53 672
Building Plan Fees	2 692	3 929
Cemetery Fees	31 204	29 481
Certificates	14 784	15 458
Connections	61	166
Photocopies	778	2 501
Tender Documents	14 035	-
Reconnections	86 099	114 661
Sundries	321 576	755 777
Sundry Rentals	-	-
Surplus Cash	2 447	0
<b>Total Other Revenue</b>	<b><u>726 918</u></b>	<b><u>975 645</u></b>
<p>The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 18 to 25, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.</p>		

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>28 EMPLOYEE RELATED COSTS</b>		
Employee Related Costs - Salaries and Wages	18 530 798	20 508 640
Basic Salaries and Wages	17 392 928	17 683 731
Long Service Bonuses	-	132
Annual leave	1 010 600	1 164 453
Contribution to Leave Fund	-	1 660 325
Bonuses	127 270	-
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	3 694 645	3 442 053
Medical	1 203 963	594 422
Pension	2 006 121	1 922 930
Workman's compensation	297 411	546 641
Industrial Council Levy	9 283	9 223
Skills Development Levy	14 980	214 052
UIF	162 887	154 785
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	2 055 880	2 008 375
Allowances	2 055 880	2 008 375
Housing Benefits and Allowances	337 616	351 121
Overtime Payments	1 899 946	1 770 204
Defined Benefit Plan Expense:	470 339	1 487 787
Current Service Cost	(32 157)	815 350
Interest Cost	-	-
Benefits paid	-	-
Net Actuarial (gains)/losses recognised	502 496	672 437
<b>Total Employee Related Costs</b>	<b>26 989 224</b>	<b>29 568 180</b>
<b>Remuneration of Section 57 Employees:</b>		
<b>Remuneration of the Municipal Manager</b>		
Annual Remuneration	616 602	789 670
Car Allowance	70 824	112 109
Acting Allowance	39 425	-
Other	145 919	243 890
<b>Total</b>	<b>872 770</b>	<b>1 145 669</b>
The Municipal Manager resigned 28 February 2014. An acting Municipal Manager was appointed on 01 November 2013 ( Also CFO at the time). The new Municipal Manager was appointed on 01 July 2014.		
<b>Remuneration of the Chief Financial Officer</b>		
Annual Remuneration	745 545	332 667
Car Allowance	24 000	97 536
Contributions to UIF, Medical and Pension Funds	45 204	24 000
Acting Allowance	59 899	59 899
Other	57 426	198 578
<b>Total</b>	<b>932 073</b>	<b>712 680</b>
The previous Chief Financial Officer resigned on 28 February 2013. An Acting Chief Financial Officer was appointed on 05 March 2013 until 31 October 2013. The new Chief Financial Officer was appointed on 01 November 2013 and retains office to date.		
<b>Remuneration of the Manager: Corporate Support Services</b>		
Annual Remuneration	173 967	521 900
Car Allowance	32 000	96 000
Contributions to UIF, Medical and Pension Funds	14 524	35 832
Acting Allowance	112 107	-
Other	36 245	52 469
<b>Total</b>	<b>368 842</b>	<b>706 201</b>
<b>Remuneration of the Manager: Technical Services</b>		
Annual Remuneration	613 530	508 040
Car Allowances	148 069	144 000
Other	21 203	38 433
<b>Total</b>	<b>782 802</b>	<b>690 473</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>29 REMUNERATION OF COUNCILLORS</b>		
Executive Mayor/Speaker	509 757	628 273
Councillors	2 586 400	2 922 321
<b>Total Councillors' Remuneration</b>	<b>3 096 157</b>	<b>3 550 594</b>
<b>Remuneration of Councillors:</b>		
The remuneration of Councillors was based on the upper limits determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required of Him by the Remuneration of Public Office Bearers Act No. 20 of 1998.		
<b>30 DEPRECIATION AND AMORTISATION</b>		
Depreciation: Property, Plant and Equipment	19 107 404	18 985 467
Amortisation: Intangible Assets	59 274	254 500
<b>Total Depreciation and Amortisation</b>	<b>19 166 678</b>	<b>19 239 967</b>
<b>31 IMPAIRMENT LOSSES</b>		
<i>31.1 Impairment Losses on Financial Assets</i>		
<b>Impairment Losses Recognised:</b>	5 433 125	5 200 917
Bad Debts And Impairment Losses	5 433 125	5 200 917
<b>Impairment Losses Reversed:</b>	-	-
	<b>5 433 125</b>	<b>5 200 917</b>
<b>32 REPAIRS AND MAINTENANCE</b>		
Land and Buildings	59 161	122 541
Infrastructure Assets	4 334 296	2 875 581
<b>Total Repairs and Maintenance</b>	<b>4 393 457</b>	<b>2 998 121</b>
<b>33 FINANCE COSTS</b>		
Bank Overdraft	570 736	1 354 770
Loans and Payables at amortised cost	4 514	56 065
<b>Total Interest Paid on External Borrowings</b>	<b>575 250</b>	<b>1 410 835</b>
<b>34 BULK PURCHASES</b>		
Electricity	17 499 255	15 933 519
Water	5 292 712	4 019 880
<b>Total Bulk Purchases</b>	<b>22 791 967</b>	<b>19 953 398</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>35 CONTRACTED SERVICES</b>		
Legal Services	726 463	870 653
Other Contracted Services	960 710	674 880
Professional Fees	2 949 667	76 542
Valuations	-	2 304 941
<b>Total Contracted Services</b>	<b>4 636 840</b>	<b>3 927 016</b>

**36 GRANTS AND SUBSIDIES PAID**

Community Projects	6 221 283	2 760 715
<b>Total Grants and Subsidies</b>	<b>6 221 283</b>	<b>2 760 715</b>

**Community Projects** are in respect of community cultural programs and catering & transport cost of community development workers within the municipality's area of jurisdiction.

**37 GENERAL EXPENSES**

Included in General Expenses are the following:

Accommodation Cost	682 011	733 071
Admin Cost	14 331	-
Advertising	367 244	259 903
Bank Charges	159 298	124 719
Chemicals & Poison	1 647 922	2 075 867
Compliance Fees	1 099 998	2 845 601
Entertainment	384 691	300 732
External Audit Fees	3 287 450	2 976 289
Fuel & Oil	933 117	1 154 709
General Expenses	593 438	350 817
Hire Of Facilities & Equipment	2 854 635	1 697 743
Loss Control	-	77 821
Materials & Stocks	73 655	13 930
Postage & Telegrams	759 279	438 338
Special Programmes	576 464	156 417
Subscriptions	1 497	450 415
Telephone Cost	2 263 066	1 651 031
Training	123 047	137 864
Transport Cost	660 994	1 862 342
Uniforms & Protective Clothing	161 186	80 086
Ward Committee Management	77 500	335 500
Water	289 059	227 684
Website Hosting	39 708	24 162
Inter-Departmental Transfers	1 995 869	2 698 479
<b>Total General Expenses</b>	<b>19 045 461</b>	<b>20 673 517</b>

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

No other extra-ordinary expenses were incurred.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>38 OTHER GAINS AND LOSSES</b>		
Change in Fair Value of Financial Assets designated as at FVTPL	14 436	7 600
Change in Fair Value of Financial Assets designated as at FVTPL in the year amounted to R14 436 (2013: R7 600) are attributable to continuing operations (see above). The gain is due to changes in the fair value of share investments held in Senwes and OVK.		

**39 CORRECTION OF ERROR**

Corrections were made during the previous financial years. Details of the corrections are described below:

**39.1 Restatement of Accumulated Surplus**

The prior year figures of Accumulated Surplus has been restated to correctly disclose the monies held by the municipality in terms of the disclosure notes indicated below.

The effect of the changes are as follows:

		Accumulated Surplus
<b>Balances published as at 30 June 2012</b>		<b>614 220 538</b>
<u>Correction of Error:- Accumulated Surplus opening balance</u>		
Landfill site rehabilitation provision	16 603 692	
Change in the net present value of dismantling cost capitalised to Landfill site assets	(16 603 692)	
Prior period error on landfill site assets reversed	2 712 259	
Correction of cash and cash equivalents	(15 751 890)	
Correction of non-current investments	15 751 890	
Restatement of Post employee medical aid provision	6 530 941	
Correction of opening balance Accumulative depreciation - Other assets	(5 846)	
Correction of opening balance Accumulative depreciation - Infrastructure assets	379 716	
Correction of Consumer deposits	154 142	
Correction of service debtors - Rates	152 143	
Correction of service debtors - Water	(228 290)	
Correction of service debtors- Electricity	(190 393)	
Correction of cash book opening balance	98 621	
Correction of VAT control account	51 213	
Recognition of OVK shares	27 800	
Correction of grants receivables	(12 608 493)	
Total	-	(2 926 187)
<b>Restated Balances as at 30 June 2012</b>		<b>611 294 351</b>
Addition for the year as reflected in 2012/2013 Financial Statements		1 925 113
Other adjustments for the year as reflected in 2012/2013 Financial Statements		(2 717 310)
<u>Surplus as per 2012/13 Annual Financial Statements</u>		3 116 615
<u>Correction of Error:- Profit 2012/2013</u>		
Correction of fair value on shares	2 200	
Correction of interest capitalised to the provision for landfill site rehabilitation	2 348 723	
Correction of movement in Post employee medical aid provision	(238 128)	
Correction of depreciation due to change in the net present value of dismantling cost	736 773	
Total	-	2 849 557
<b>Restated Balances as at 30 June 2013</b>		<b>616 468 326</b>

**39.2 Reclassification of Expenditure**

The prior year figures of Expenditure and Revenue have been restated to correctly classify the nature of Revenue and Expenditure of the municipality.

The effect of the Reclassification is as follows:

	Prior Year 2012/13	Current Year 2012/13	Restated Amount
Fines	-	55 510	(55 510)
Licences and Permits	-	1 399	(1 399)
General expenses	(27 307 577)	(20 673 517)	(6 634 061)
Contracted service	-	(3 927 016)	3 927 016
Grants and subsidies	-	(2 760 715)	2 760 715
Interest Earned - External Investments	3 427 178	1 201 856	2 225 323
Interest Earned - Outstanding Debtors	-	2 225 321	(2 225 321)
Other Income	978 881	975 645	3 236
Other Gains on Continued Operations	-	5 400	(5 400)
Fair value adjustment	5 400	-	5 400
	<b>(22 896 118.06)</b>	<b>(22 896 118)</b>	<b>0</b>

**Reclassification of revenue and expenditure:**

All the reclassifications done was to disclose the nature of the expenditure and revenue more accurately in the 2013/2014 Financial Statements. Prior period error adjustments to revenue and expenditure which did not result due to reclassification is disclosed under Note 39.1.



**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

2014	2013
R	R

**39.3 Nature**

Shares at fair value

The OVK shares were not included in the AFS in prior periods. The correction was to include the OVK shares received in the 2011/2012 financial period and the fair value adjustment for the 2012/2013 year.

Restatement of Post employee medical aid provision

In the current financial period it was identified that only 18 people qualify for post employment medical aid benefits as stipulated in SALGA resolution 8. In the previous financial periods the valuation report erroneously included 118 staff members. The valuation was therefore performed by the actuaries for the current and previous financial period, only the 18 people who qualify for the benefit as regulated by SALGA resolution 8 was included. The new report indicated that the provision should be decreased with R 6 530 941 in the 2012/2013 period.

Consumer deposits

Closing balance of consumer deposits was incorrectly accounted for in the 2012/2013 AFS and did not agree to the summary of deposits. The correction was made to correct the opening balance for the 2013/2014 financial year.

Service debtors - Rates, water and electricity

Service debtors were not correctly accounted for in the comparative year. The correction was done in order to restate the balances of these debtors accounts correctly as supported by the Billing report.

Landfill site rehabilitation provision and solid waste disposal assets

During the compilation of the AFS the valuation of the landfill site rehabilitation provision was re-evaluated. The valuation from the management expert who did the 2013/2014 valuation showed a difference in the provision that was raised in 2012/2013 that significantly differed from the valuation done by the previous management expert. The discount rate of 6.69% that was used as well as the period over which the dismantling costs were discounted was the main contributors to the difference in valuation. Management is of the opinion that the valuation performed by the current management expert reflects a more relevant and accurate estimation of the costs that needs to be incurred at the end of the useful lives of the landfill sites and that the discounting rate is a better reflection of the market trends expected for the future years.

Reversal of prior period error recognised on Landfill site assets

The prior year correction made to adjust the amount previously capitalised to the solid waste disposal assets was reversed due to new information becoming available. Refer to explanation under Landfill site rehabilitation provision and solid waste disposal assets.

Correction of depreciation

Due to the corrections made to the solid waste disposal assets, as mentioned above, the depreciation needed to be restated.

Correction of cash and cash equivalents and money market investments

Management disclosed the portion of money market investments maturing within 3 months as cash and cash equivalents in the prior year. The classification of the R 15 751 890 was corrected due to the fact that management invested the money for long-term purposes although the investment have a short maturing period.

Correction of VAT control account

In 2013/2014 the municipality made use of consultants to do a VAT audit for the Municipality. A report showing the municipality could claim input VAT for expenses relating to the 2012/2013 period which were previously under claimed was obtained. The control account was therefore corrected.

Correction of opening balance Accumulative depreciation - Other assets

The opening balance Accumulative depreciation - Other assets have been restated to correctly disclose the balance as reflected in the fixed asset register.

Correction of opening balance Accumulative depreciation - Infrastructure assets

The opening balance Accumulative depreciation - Infrastructure assets have been restated to correctly disclose the balance as reflected in the fixed asset register.

Correction of cash book opening balance

Correction of the cashbook opening balance due to journals erroneously written through the cashbook in the previous period.

Correction of grants receivable

During the 2011/2012 financial period a grants receivable was erroneously recognised for equitable share as disclosed on the shown on the DORA. The amount should not have been included as the financial year of treasury and the municipality differs and the amount could only be recognised in the following financial period.

**39.4 Capital commitments disclosure:**

In the 2012/2013 Financial Statement the total capital commitments were disclosed as R 65 921 163. The correct figure that should have been disclosed is R 30 803 653 ( Refer to note 44). The difference of R 35 117 510 was incorrectly disclosed as capital commitments for Infrastructure assets approved but not yet contracted for.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>40 CASH GENERATED BY OPERATIONS</b>		
Surplus / (Deficit) for the Year	17 606 313	5 966 172
Adjustment for:		
Appropriations to/from Internal Reserves	(10 513 718)	-
Depreciation and Amortisation	19 166 678	19 239 967
Intangible Assets transferred to Non-current Assets Held-for-Sale	-	91 010
Contribution to Post-retirement Health Care Benefits	223 802	-
Contribution to Long Service Awards Liability	246 537	177 000
Expenditure incurred from Long Service Awards Liability	-	(79 000)
Contribution to Impairment Provision	6 534 156	5 769 591
Bad Debts Written-off	(1 101 032)	(3 785 133)
<b>Operating surplus before working capital changes</b>	<b>32 162 735</b>	<b>27 379 607</b>
Decrease/(Increase) in Inventories	39	810 512
Decrease/(Increase) in Receivables from Exchange Transactions	(8 724 684)	649 411
Decrease/(Increase) in Receivables from Non-exchange Transactions	(4 152 451)	(2 384 010)
Decrease/(Increase) in VAT Receivable	2 661 688	(2 164 196)
Increase/(Decrease) in Consumer Deposits	129 964	(53 799)
Increase/(Decrease) in Payables from Exchange Transactions	(275 309)	(2 890 856)
Increase/(Decrease) in Conditional Grants and Receipts	11 834 602	384 294
<b>Cash generated by / (utilised in) Operations</b>	<b>33 636 586</b>	<b>21 730 963</b>

**41 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION**

Long-term Liabilities (See Note 14)	-	148 020
Used to finance Property, Plant and Equipment - at cost	-	(148 020)
<b>Cash invested for Repayment of Long-term Liabilities</b>	<b>-</b>	<b>-</b>

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

**42 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**42.1 Unauthorised Expenditure**

Reconciliation of Unauthorised Expenditure:

Opening balance	47 809 521	42 429 654
Unauthorised Expenditure current year	16 746 453	5 379 867
Unauthorised Expenditure awaiting authorisation	<b>64 555 974</b>	<b>47 809 521</b>

Incident	Disciplinary Steps / Criminal Proceedings
<i>Budgeted votes exceeded:-</i>	
- Finance and Administration - R13 246 545 (2013: R4 000 975)	To be condoned by Council
- Planning and Development - R0 (2013: R558 878)	To be condoned by Council
- Community and Social Services - R3 499 908 (2013: R592 763)	To be condoned by Council
- Technical - R0 (2013: R227 251)	To be condoned by Council

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R

2013  
R

**42.2 Fruitless and Wasteful Expenditure**

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	1 095 610	740 096
Fruitless and Wasteful Expenditure current year	491 458	355 514
Condoned or written off by Council	-	-
Fruitless and Wasteful Expenditure awaiting condonement	<b>1 587 068</b>	<b>1 095 610</b>

Incident	Disciplinary Steps / Criminal Proceedings
Penalty paid to SARS for the late submission of VAT returns - R0 (2013: R21 451)	To be submitted to Council
Lease payments for Bio guards which was not operational for the entire financial year - R0 (2013: R260 504)	To be submitted to Council
Interest paid to creditors on late payments - Eskom, Telkom, UFS, Oranje Riet and KWJ attorneys - R91 593 (2013: R65 288)	To be submitted to Council
Fines paid to Dihlabeng Traffic department and Mangaung Metropolitan Municipality - R2 300 (2013: R400)	To be submitted to Council
De waal nortje ingelyf quantity surveyors and KWJ attorneys for Legal cost incurred - R15 210 (2013: R6 977)	To be submitted to Council
VAT paid to non vendors for SMME projects - R337 282 (2013: R0)	To be submitted to Council
Damage to vehicle not insured - R45 074 (2013: R0)	To be submitted to Council
Claims against the Municipality for damages to vehicle due to potholes - Various Creditors - R0 (2013: R894)	To be submitted to Council

**42.3 Irregular Expenditure**

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

Reconciliation of Irregular Expenditure:

Opening balance	67 665 993	49 004 625
Irregular Expenditure current year	20 398 448	18 661 368
Condoned or written off by Council	-	-
Irregular Expenditure awaiting condonement	<b>88 064 441</b>	<b>67 665 993</b>

Incident	Disciplinary Steps / Criminal Proceedings
Expenditure contrary to SCM Processes - R20 398 448 (2013: R18 661 368)	A report will be adopted by the Executive Committee, condoning the "Irregular Expenditure".

A report detailing the outcome of the investigations will be presented to council upon completion. Where necessary the municipality will apply for condonement from the relevant custodians of the Acts such as National Treasury.

**43 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**43.1 Contributions to organised local government - SALGA**

Opening Balance	-	-
Council Subscriptions	(525 700)	9 223
Amount Paid - current year	525 700	(9 223)
Amount Paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>

**43.2 Audit Fees**

Opening Balance	-	(112 995)
Current year Audit Fee	3 291 858	3 402 164
Amount Paid - current year	(3 287 450)	(3 289 169)
Amount Paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<b>4 408</b>	<b>-</b>

**43.3 VAT**

The net of VAT input payables and VAT output receivables are shown in Note 5. All VAT returns have been submitted by the due date throughout the year.

**43.4 PAYE, Skills Development Levy and UIF**

Opening Balance	(6 349)	-
Current year Payroll Deductions	3 736 965	3 245 107
Amount Paid - current year	(3 680 935)	(3 251 456)
Amount Paid - previous years	-	-
<b>Balance Unpaid/ (over paid)</b>	<b>49 681</b>	<b>(6 349)</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>43.5 Pension and Medical Aid Deductions</b>		
Opening Balance	(253 702)	313 920
Current year Payroll Deductions and Council Contributions	3 694 645	3 600 373
Amount Paid - current year	(3 735 131)	(4 167 995)
Amount Paid - previous years	-	-
<b>Balance Unpaid/ (over paid)</b>	<b>(294 188)</b>	<b>(253 702)</b>

The balance represents Pension and Medical Aid contributions deducted from employees and councillors in the June 2014 payroll, as well as the municipality's contributions to these funds.

**43.6 Councillor's arrear Consumer Accounts**

During the financial year under review no Councillor (present or past) was in arrear with the settlement of their municipal accounts. These amounts are deducted from their salary on a monthly basis.

**43.7 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA**

Material Electricity and Water Losses were as follows and are not recoverable:

**Electricity:**

	Lost Units	Tariff	Value
<b>30 June 2014</b>	3 078 223	0.74	2 263 725
<b>30 June 2013</b>	2 074 208	0.65	1 341 390

Electricity Losses occur due to *inter alia*, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Percentage Distribution Loss 13% 7%

Electricity distribution losses for the period exceeds the norm of 7% - 10% as per section 125 of the MFMA.

**Water:**

	Lost Units	Tariff	Value
<b>30 June 2014</b>	4 487 449	0.73	3 275 838
<b>30 June 2013</b>	10 473 401	0.73	7 645 583

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

Percentage Distribution Loss 18% 68%

**44 COMMITMENTS FOR EXPENDITURE**

**44.1 Capital Commitments**

Commitments in respect of Capital Expenditure:

- <b>Approved and Contracted for:-</b>		
<i>Infrastructure</i>	3 805 504	3 941 490
<i>Infrastructure</i>	3 805 504	3 941 490
- <b>Approved but Not Yet Contracted for:-</b>		
<i>Infrastructure</i>	15 320 909	26 862 163
<i>Infrastructure</i>	15 320 909	26 862 163
<b>Total Capital Commitments</b>	<b>19 126 413</b>	<b>30 803 653</b>

This expenditure will be financed from:

Own resources	-	2 506 000
Government Grants	19 126 413	28 297 653
	<b>19 126 413</b>	<b>30 803 653</b>

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>45 FINANCIAL INSTRUMENTS</b>		
<b>45.1 Classification</b>		
<b>FINANCIAL ASSETS:</b>		
In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:		
<u>Financial Assets</u>	<u>Classification</u>	
<b>Non-current Investments</b>		
Fixed Deposits	Amortised cost	18 302 064
Investment in OVK and Senwes - at fair value	Fair value	17 603 291
		107 225
		92 750
<b>Receivables from Exchange Transactions</b>		
Electricity	Amortised cost	769 143
Refuse	Amortised cost	1 903 752
Sewerage	Amortised cost	1 970 267
Water	Amortised cost	2 500 324
Other Receivables	Amortised cost	763 773
		1 476 666
<b>Receivables from Non-exchange Transactions</b>		
Assessment Rates Debtors	Amortised cost	3 209 782
Grants receivable	Amortised cost	-
		-
<b>Cash and Cash Equivalents</b>		
Call Deposits	Amortised cost	-
Notice Deposits	Amortised cost	-
Bank Balances	Amortised cost	15 032 025
Cash Floats and Advances	Fair value	810
		690
<b>Current Portion of Long-term Receivables</b>		
<b>SUMMARY OF FINANCIAL ASSETS</b>		
<b>Financial Assets at Amortised Cost:</b>		
Non-current Investments	Fixed Deposits	18 302 064
		17 603 291
Receivables from Exchange Transactions	Electricity	769 143
Receivables from Exchange Transactions	Refuse	1 903 752
Receivables from Exchange Transactions	Sewerage	1 970 267
Receivables from Exchange Transactions	Water	2 500 324
Receivables from Exchange Transactions	Other Debtors	763 773
		1 476 666
Receivables from Non-exchange Transactions	Assessment Rates Debtors	3 209 782
Receivables from Non-exchange Transactions	Grants receivable	-
		-
Cash and Cash Equivalents	Call Deposits	-
Cash and Cash Equivalents	Notice Deposits	-
Cash and Cash Equivalents	Bank Balances	15 032 025
		1 973 513
		<u>44 951 130</u>
		<u>24 404 615</u>
<b>Financial Assets at Fair Value:</b>		
Cash and Cash Equivalents	Cash Floats and Advances	810
Investment in OVK and Senwes - at fair value		690
		107 225
		92 750
		<u>108 035</u>
		<u>93 440</u>
<b>Total Financial Assets</b>		<u><b>45 059 165</b></u>
		<u><b>24 498 055</b></u>

**LETSEMENG MUNICIPALITY**  
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**2014**  
**R**                      **2013**  
**R**

**FINANCIAL LIABILITIES:**

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

<u>Financial Liabilities</u>	<u>Classification</u>		
<b>Payables from Exchange Transactions</b>			
Trade Creditors	Amortised cost	1 836 474	4 271 278
Accrued bonuses	Amortised cost	589 882	650 886
Retentions	Amortised cost	404 544	-
Other Creditors	Amortised cost	4 588 941	4 632 229
<b>Payables from Non-exchange Transactions</b>			
Staff Bonuses	Amortised cost	-	-
Staff Leave Accrued	Amortised cost	-	-
Sundry Deposits	Amortised cost	-	-
Annuity Loans	Amortised cost	-	(104 626)
Finance Lease Liabilities	Amortised cost	-	(43 395)
<b>SUMMARY OF FINANCIAL LIABILITIES</b>			
<b>Financial Liabilities at Amortised Cost:</b>			
Payables from Exchange Transactions	Trade Creditors	1 836 474	4 271 278
Payables from Exchange Transactions	Retentions	404 544	-
Payables from Exchange Transactions	Other Creditors	4 588 941	4 632 229
Payables from Non-exchange Transactions	Staff Bonuses	-	-
Payables from Non-exchange Transactions	Staff Leave Accrued	-	-
Payables from Non-exchange Transactions	Sundry Deposits	-	-
Current Portion of Long-term Liabilities	Annuity Loans	-	(104 626)
Current Portion of Long-term Liabilities	Finance Lease Liabilities	-	(43 395)
		<u>7 419 840</u>	<u>9 702 413</u>
<b>Total Financial Liabilities</b>		<u><b>7 419 840</b></u>	<u><b>9 702 413</b></u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

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**45.2 Fair Value**

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

**Cash**

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

**Long-term Investments**

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

**Loan Receivables/Payables**

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**Trade and Other Receivables/Payables**

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

**Other Financial Assets and Liabilities**

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

**Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities**

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**30 June 2014**

	Level 1 R	Level 2 R	Level 3 R	Total R
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value:</b>				
Cash and Cash Equivalents	-	810	-	810
Investment in OVK and Senwes - at fair value	107 225			107 225
<b>Total Financial Assets</b>	<b>107 225</b>	<b>810</b>	<b>-</b>	<b>108 035</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value:</b>				
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Financial Instruments</b>	<b>107 225</b>	<b>810</b>	<b>-</b>	<b>108 035</b>

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	2014 R			2013 R
30 June 2013	Level 1 R	Level 2 R	Level 3 R	Total R
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value:</b>				
Cash and Cash Equivalents	-	690	-	690
Investment in OVK and Senwes - at fair value	92 750			92 750
<b>Total Financial Assets</b>	<u>92 750</u>	<u>690</u>	<u>-</u>	<u>93 440</u>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value:</b>				
<b>Total Financial Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Financial Instruments</b>	<u>92 750</u>	<u>690</u>	<u>-</u>	<u>93 440</u>

**45.3 Capital Risk Management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 17 and the Statement of Changes in Net Assets.

**Gearing Ratio**

	2014 R	2013 R
The gearing ratio at the year-end was as follows:		
Debt	-	148 020
Cash and Cash Equivalents	(810)	(690)
<b>Net Debt</b>	<u>(810)</u>	<u>147 331</u>
Equity	<u>623 560 938</u>	<u>616 468 342</u>
<b>Net debt to equity ratio</b>	<u>0%</u>	<u>0%</u>

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

**45.4 Financial Risk Management Objectives**

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.



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**45.5 Significant Risks**

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

**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 in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Credit Risk**

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

**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 municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

**45.6 Market Risk**

The municipality's activities expose it primarily to the financial risks of changes in interest rate. No formal policy exists to hedge volatilities in the interest rate market.

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

**45.6.1 Foreign Currency Risk Management**

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

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**45.6.2 Interest Rate Risk Management**

*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.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

**Interest Rate Sensitivity Analysis**

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates.

**45.7 Credit Risk Management**

*Credit Risk* refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties is monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

**Investments/Bank, Cash and Cash Equivalents**

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank.

**Trade and Other Receivables**

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

	2014 R	2013 R
<b>Receivables from Exchange Transactions</b>		
Counterparties without external credit rating:-		
Group 1	1 038 359	1 721 449
Group 2	149 967	248 623
	<u>1 188 325</u>	<u>1 970 072</u>
<b>Total Receivables from Exchange Transactions</b>	<u>1 188 325</u>	<u>1 970 072</u>
<b>Receivables from Non-exchange Transactions</b>		
Group 1	920 145	247 637
Group 2	-	-
	<u>920 145</u>	<u>247 637</u>
<b>Total Receivables from Non-exchange Transactions</b>	<u>920 145</u>	<u>247 637</u>

**Credit quality Groupings:**

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

**45.8 Liquidity Risk Management**

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**Liquidity and Interest Risk Tables**

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

**45.9 Other Price Risks**

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

**LETSEMENG MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

2014                      2013  
R                                      R

**46 RELATED PARTY TRANSACTIONS**

During the year there were no related party transactions. The Municipality has various processes in place to identify and note any related party balances and transactions. These range from disclosure on the bid documents to maintenance of a conflict register for councillors and senior managers; this is kept in the office of the Municipal Manager.

**47 CONTINGENT LIABILITIES**

**47.1 Court Proceedings:**

(i) Termination of Contract:

The municipality is being sued by the plaintiff, Mr VM Morobane for unfair dismissal and/ or unfair labour practice. Mr VM Morobane resigned after he was allegedly treated unfair by Management. He resigned by letter on 11 February 2010. He was employed in terms of fixed term contract for five years as Corporate Service Manager on 6 September 2006. Mr VM Morobane's condition for resigning was that he should be paid the remainder of his contract of employment. Council conveyed a letter which stated that the resignation was accepted and he would not be paid for the remainder of his contract. Mr VM Morobane subsequently issued summons in the Free State High Court for payment of the unpaid salary amounting to R 737 558.36. The High Court dismissed the grounds of defence. Appeal against the High Court's judgement was made and the Supreme Court of Appeal. The appeal will be heard in High Court on 24-28 November 2014 and 1-5 December 2014.

876 567                      876 567

771 567                      771 567

(ii) Review application : J Mongola

The municipality is currently reviewing an award to pay R 105 000. The estimated litigation cost will be R 100 000.

105 000                      105 000

(iii) Contingent liability - Unlicensed landfill sites:

The municipality managed 3 landfill sites without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed. Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community.

**48 CONTINGENT ASSETS**

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

**49 IN-KIND DONATIONS AND ASSISTANCE**

The municipality did not receive any In-kind Donations and Assistance during the year under review.

**50 EVENTS AFTER THE REPORTING DATE**

No events having financial implications requiring disclosure occurred subsequent to 30 June 2014.

**51 COMPARATIVE FIGURES**

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 39).

**52 GOING CONCERN ASSESSMENT**

Management considered the following matters relating to the Going Concern:

(i) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(ii) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

**APPENDIX A (Unaudited)**  
**LETSEMENG MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2014**

THE MUNICIPALITY HAD NO EXTERNAL LOANS FOR THE TWO FINANCIAL YEARS

Details	Original Loan Amount	Interest Rate	Redeemable	Balance at 30 June 2013	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2014
	R			R	R	R	R
<b>ANNUITY LOANS</b>							
Multitech	-	9.00%	31/12/2013	104 626	-	104 626	-
<b>Total Annuity Loans</b>	-			<b>104 626</b>	-	<b>104 626</b>	-
<b>CAPITAL LEASE LIABILITIES</b>							
Multitech		9.00%	31/12/2013	4 070		4 070	-
Bytes	-	9.00%	30/04/2014	39 325	-	39 325	-
<b>Total Capital Lease Liabilities</b>	-			<b>43 395</b>	-	<b>43 395</b>	-
<b>TOTAL EXTERNAL LOANS</b>	-			<b>148 021</b>	-	<b>148 021</b>	-