



UMKHANYAKUDE DISTRICT MUNICIPALITY

ANNUAL REPORT

2010/2011 FY

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MAYOR'S FOREWORD

After the end of each and every financial year, municipalities are expected to report on activities they engaged in. At the centre of the annual report is performance of the municipality against the budget. As the Mayor of Umkhanyakude District Municipality, I have a special mandate to account to the local community for all the activities that occurred during 2010/2011 financial year.

It is important though to highlight that 2010/2011 financial year, marked the end of third term of Local Government. Municipalities in general are recognised as going concerns and Umkhanyakude District Municipality is no different. As the Mayor of Umkhanyakude District Municipality, I am obliged to look back and account on the implementation of the IDP and the budget. Furthermore, in terms of good governance, it is irrelevant to mention that the current Council was not part of the process that compiled the IDP and budget for 2010/2011 financial year. This annual report is a reflection on service delivery during 2010/2011 financial year.

Notable achievements during 2010/2011 in terms of infrastructure development are still hard to realise. The District Municipality has been under constant pressure for years to eradicate infrastructure backlogs. There will be performance highlights in this annual report that the District Municipality is presenting, to account on a number of targets that were set. I would like to give a caution that there is still a lot of work to be done in terms of service delivery. When the Municipality came into being a little while ago, already basic service backlogs were huge.

The establishment of municipalities was meant to bring government closer to the people so that ordinary citizens throughout the country could find it convenient to have their needs heard and addressed speedily. Budget constraints though during 2010/2011 financial year made this noble idea a daunting task for the District Municipality. A large number of our communities are still trapped in abject poverty and are yet to enjoy basic services that the District Municipality is meant to deliver. Community needs were well captured firstly by local municipalities and were then prioritised at a District level especially those functions that the District Municipality is responsible for. Addressing all needs as expected by the masses of our people still remains a huge challenge. I would like to give assurance though that the Council together with the senior management of the District Municipality will be working tirelessly in partnership with private sector as well as Provincial and National government sector departments, to mobilise necessary resources to address community needs.

The financial management of the District Municipality still needs to be improved as the opinion of Auditor General was the most undesirable one ever. The Council together with the management is committed to clean audit, come 2014.

Cllr SJ Vilane

HIS WORSHIP THE MAYOR

MUNICIPAL MANAGER'S OVERVIEW

Municipalities have a serious mandate of providing basic services to the people. In order for this mandate to be successful, an efficient administrative component of the municipality need to be in place and should report regularly on the achievement or non achievement of performance targets and the implementation of the budget. Generally, municipal reporting is regulated. The annual report in particular is regulated in terms of Section 46 of the Municipal Systems Act no 32 of 2000 as amended. Furthermore, the preparation of the annual report is also regulated by the provisions of Section 121 of the Municipal Finance Management Act no 56 of 2003. As part of this annual report, our municipal entity, uMhlosinga Development Agency also prepared its annual report, which is part of the report for the District Municipality.

The financial year for 2010/2011 was not smooth plain sailing for Umkhanyakude District Municipality. This is evident in the results that the District Municipality received after Auditor General had expressed an adverse opinion on financial statements. This was a major setback for the District Municipality given the fact that 2009/2010 financial year was a great improvement from three consecutive disclaimers to qualified opinion. Bad results for 2010/2011 financial year was a culminated from a number of incidents that caused instability administratively. Even though financial statements were submitted on time by the end of August 2011. Issues raised by Auditor General were not adequately addressed by the District Municipality and hence the adverse opinion.

Investment in infrastructure development still remains a priority for Umkhanyakude District Municipality. More than R100m was earmarked for water and sanitation projects during 2010/2011 financial year. More than 170m was spent through operational budget. About R3m was spent on community participation programmes such as women, youth, old age, disability, HIV/AIDS programmes and sports.

It must be highlighted as well that the Provincial Department of COGTA continued to provide much appreciated support in areas of Integrated Development Plan, Performance Management and financial management. Other sector departments such as the Water Affairs also provided much needed strategic support which will go a long way in improving the District Municipality's efficiency in service delivery.

The introduction of the Municipal Turnaround Strategy (MTAS) by the National Department of COGTA, was one of most notable strategic intervention during 2010/2011 financial. The MTAS has been developed and progress on ten priority issues is monitored.

Mr PS Gwacela
THE ACTING MUNICIPAL Manager

MUNICIPAL POWERS AND FUNCTIONS

Municipal Powers and Functions reflect activities that municipalities are obliged to perform. Partly it all depends on the category of the municipality. In terms of the Municipal Structures Act Umkhanyakude District Municipality falls under Category C.

The powers and functions of the UMkhanyakude District Municipality, tabled in terms of sections 83 and 84 of the Municipal Structures Act, are as follows:

- 1) Integrated Development Planning for the District Municipality as a whole, including a framework for integrated development plans for the local municipalities within the area of the District Municipality, taking into account the integrated developments plans on those local municipalities,
- 2) Bulk supply of water that affects a significant proportion of municipalities in the district
- 3) Bulk supply of electricity that affects a significant proportion of municipalities in the district.
- 4) Municipal Health Services serving the area of the District Municipality as a whole
- 5) Fire Fighting services serving the area of the District Municipality as a whole

The following functions are shared by both the district and its family of municipalities:

- 1) Promotion of local Tourism;
- 2) Fire fighting services;
- 3) Municipal airports;
- 4) Municipal planning;
- 5) Municipal public transport;
- 6) Cemeteries, funeral parlors and crematoria;
- 7) Refuse removals, refuse dumps and solid waste removals;
- 8) The establishment conducts and control of fresh produce markets and abattoirs; and
- 9) Municipal roads which form integral part of a road transport system for the area of the District Municipality as a whole.

EXECUTIVE SUMMARY

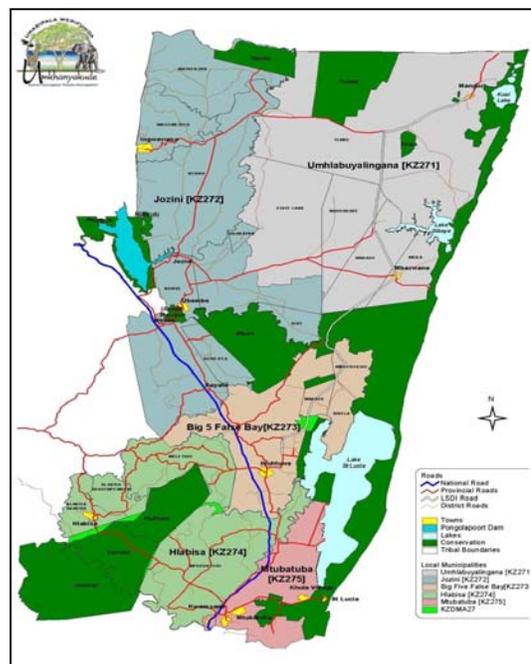
The process of compiling an annual report commenced in August 2011 when the District Municipality submitted Annual Financial Statements to Auditor General which was in terms of S 126(1)(a) of the MFMA. Parallel to this process was the finalisation of the annual performance report which was also submitted to Auditor General. The preparation of the 2010/2011 annual report is informed by

- ⇒ **Chapter 1:** This section gives an overview of Umkhanyakude District Municipality in terms of its location and demographics. It must be noted though that the statistics presented in this section of the annual report still dates back as far as 2001 and 2007. These are the official figures obtained from Stats South Africa. During October 2011 census was conducted and it is anticipated that new figures will be made available some time in 2012.
- ⇒ **Chapter 2:** This section reports on the performance highlights of Umkhanyakude District Municipality. Performance targets were set and were managed using the Performance Management System. This section of the annual report also gives a status quo on service delivery backlogs.
- ⇒ **Chapter 3:** This section of the annual report reflects human resources and institutional arrangement issues. On the human resources level there are details regarding programmes such as skills development; employment equity, capacity building, discipline just to mention a few. There are also remuneration disclosures for senior officials and councillors.
- ⇒ **Chapter 4:** This chapter presents annual financial statements, Auditor General's report as well as the financial recovery plan for Umkhanyakude District Municipality.
- ⇒ **Annexures:**
 - Annexure 1 reflects on the performance report (financial and non-financial);
 - Annexure 2 deals with audited financial statements and Annexure
 - Annexure 3 contains details on the Financial Recovery Plan
 - Annexure 4 contains an annual report for uMhlozinga Development Agency (the municipal entity)

CHAPTER 1: OVERVIEW OF UMKHANYAKUDE DISTRICT MUNICIPALITY

OVERVIEW OF THE DISTRICT

Umkhanyakude District Municipality (DC 27) is located in the North East of KwaZulu-Natal Province, South Africa (**Latitude 27°37'21.63"S, Longitude 32°01'47.14"E**). From North East to South East, the District stretches from KwaNgwanase, which is under Umhlabuyalingana Municipality to Mtubatuba. The Eastern Coastal belt is mainly comprised of environmentally protected areas which are managed by the Isimangaliso Wetland Park Authority. This part of the District was declared as a World Heritage Site. Towards the South of the District, there is Hluhluwe which is under the Big 5 False Bay Municipality. This Municipality is situated almost at the centre of the District. The Lubombo Mountains and the N2 form part of the physical divide within the District. From North West to South West, the District stretches from Manyiseni which is under Jozini municipality to Hlabisa. Along the Western side of the District lies Zululand District Municipality. Umfolozi River which runs along the South of Mtubatuba, separates Umkhanyakude from uThungulu District Municipality.



The following municipalities form part of Umkhanyakude District:

- Umhlabuyalingana Municipality - KZ 271
- Jozini Municipality - KZ 273
- The Big 5 False Bay Municipality - KZ 273
- Hlabisa Municipality - KZ 274
- Mtubatuba Municipality - KZ 275

WARDS DELINEATION

The Municipal Demarcation Board conducted lengthy consultative processes regarding proposed 2011 boundary changes within Umkhanyakude District Municipality. The District Municipality will lose all District Managed Areas (DMAs) and they will be taken over by local municipalities. Changes in boundaries will result in the following scenarios:

- All local municipalities would inherit DMAs
- The Big 5 False Bay Municipality Areas will include the portion of the DMA; portion of kwa-Jobe and Mbazwana (South). Jozini and Umhlabuyalingana municipalities will lose small portions to Big 5 False Bay Municipality.
- Hlabisa Municipality will lose 12 Mpukunyoni wards to Mtubatuba Municipality

These changes will compell municipalities to revisit their planning processes and factor in the impact that these changes will cause.

DEMOGRAPHIC PROFILE

Population Characteristics

The initial total population of Umkhanyakude as per Statistics South Africa Census of 2001 is 573 341 people. That figure has been reconciled through Community Survey which was conducted in 2007 to 614 046.

The table below presents the population for each municipality, including the DMA within Umkhanyakude District Municipality.

Population Characteristics (Source: STATSA)

| MUNICIPALITY | PERSONS | | HOUSEHOLDS | |
|------------------------|----------------|----------------|----------------|----------------|
| | CS 2001 | CS 2007 | CS 2001 | CS 2007 |
| Umhlabuyalingana | 140 958 | 163 694 | 25 959 | 27 006 |
| Jozini Municipality | 184 052 | 207 250 | 33 534 | 38 530 |
| The Big Five False Bay | 31 291 | 34 991 | 6 183 | 6 657 |
| Hlabisa Municipality | 176 890 | 150 557 | 26 876 | 27 260 |
| Mtubatuba Municipality | 33 612 | 46 596 | 7 472 | 11 339 |
| DMA | 6 538 | 10 958 | 1 539 | 2 181 |
| Umkhanyakude | 573 341 | 614 046 | 101 563 | 114 973 |

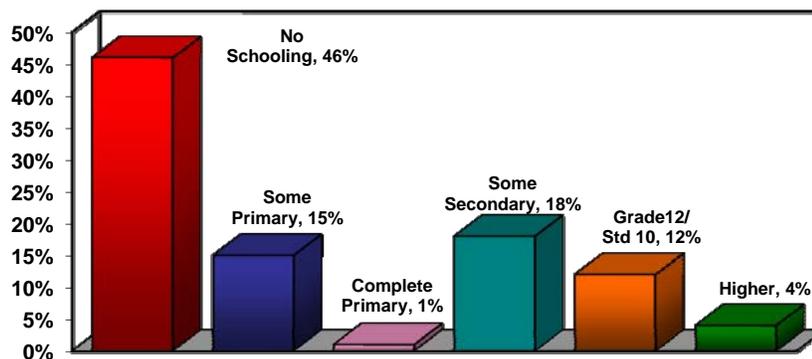
- 70% of the population is made up of the youth;
- More than 70% of the total population is less than 29 years of age, whereas 35% are aged 19 or under; and
- Females outnumbering males as they about 55%, whereas males are about 45% of the District's population.

SOCIO-ECONOMIC PROFILE

Levels of Education

- Umkhanyakude District Municipality is characterized by low literacy levels.
- About 46% of the population has never been to school¹
- In terms of functional illiteracy rate, about 20% of the total population is functionally illiterate, while only a fraction (about 37, 870) have some primary education.
- There is also a high drop-out rate of school going children.

DC 27 Education Level (CS- 2007 Stats SA)



Financial constraints compounded by poverty rate could be some of the factors that contribute to high illiteracy rate. The high drop-out rate could be attributed to long distances majority of children have to walk for schooling. About 90% of school children walk long distance to attend schooling, with about 50% has to walk as far as 30 km daily for schooling.

Female-Headed Households

In South Africa as a whole only 41.9% of households are female headed, yet in Umkhanyakude in terms of Census 2001 more than half (50.6%) of households were female headed. This is higher than the average for the Province, which stands at 45.5%.

¹ The national figure stands at 15%

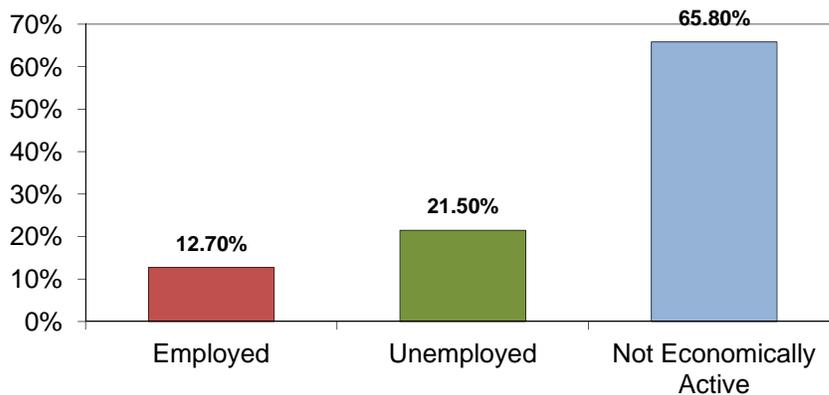
The Local Economy

- The local economy contributes only 0,6% to the economy of KZN Province.
- The economic activities of the district are concentrated in two main economic sectors, namely agriculture and tourism (trade) sectors.
- These two sectors together contribute 55% to the total economy of the district.
- Agriculture is responsible for 32% and trade contributes a further 23%.
- The average contribution of the provincial agriculture sector to the economy for the province is in the order of 5%.
- The 32% contribution of the agriculture sector in the district is therefore about 6 times greater than in the case of the province.

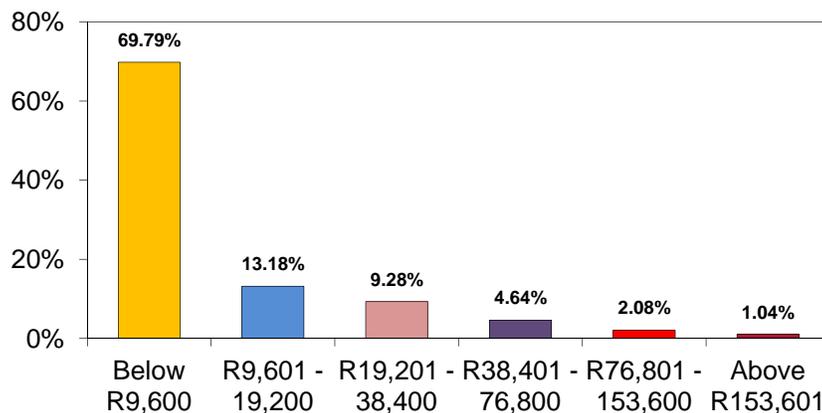
Employment and Income Distribution

- About 12,7% of the total population is formally employed.
- More than 70% of the population lives at less than R800-00 per month.
- The majority of people in the District have no income, and therefore indigent.

DC27 Employment levels (CS- 2007 Stats SA)



Annual Household Income (CS- 2007 Stats SA)



CHAPTER 2: PERFORMANCE HIGHLIGHTS

INFRASTRUCTURE DEVELOPMENT

The District Municipality is mainly focusing on the provision of basic water and basic sanitation services. The provision of basic electricity has now been devolved to local municipalities. However the District Municipality still holds two licenses to service Ingwavuma and KwaMsane areas. The following points summarises functional areas of infrastructure development for Umkhanyakude District Municipality:

- Water Services Authority. This Section, inter alia, is the engine room for the planning of proper projects implementation.
- Project Management Unit which executes projects implementation.
- Water services Provision which does operation and maintenance of water services infrastructure.
- Energy Unit which deals with the maintenance of energy infrastructure.

The Department of Water Affairs conducted a study during 2010 and produced a report with details regarding access to basic services within the District Municipality. The study revealed that 63.5% of the households have access to basic water. About 65.6% have access to basic sanitation. About 12.1% have access to electricity. During 2010 it was estimated that Umkhanyakude District Municipality had 119363 households. It is estimated that about six people reside in one household.

Access to Water, Sanitation and Electricity at DC 27

| DETAILS | WATER | | | | SANITATION | | | | ELECTRICITY | | | |
|-----------------------------|--|-----------------|-------------|--|--|-----------------|-------------|-----------------------------------|-----------------|-------------|-----------------------------------|--|
| Municipality 119 363 HHs | Backlogs based on DWA 2010 IDP Figures and aligned to state infrastructure report 2010 (Households unserved mid-year 2010) CoGta re-calculated | HHs with access | % access | Households without access (100-access %) | Backlogs based on DWA 2010 IDP Figures and aligned to state infrastructure report 2010 (Households unserved mid-year 2010) CoGta re-calculated | HHs with access | % access | HHs without access (100-access %) | HHs with access | % access | HHs without access (100-access %) | |
| KZ 271 | 16,818 | 16,873 | 50.1 | 49.9 | 11,020 | 22,671 | 67.3 | 32.7 | 1,770 | 5.3 | 94.7 | |
| KZ 272 | 13,806 | 25,186 | 64.6 | 35.4 | 13,676 | 25,315 | 64.9 | 35.1 | 1,971 | 5.1 | 94.9 | |
| KZ 273 | 783 | 6,447 | 89.2 | 10.8 | 514 | 6,716 | 92.9 | 7.1 | 582 | 8 | 92 | |
| KZ 274 | 11,793 | 20,421 | 63.4 | 36.6 | 15,533 | 16,681 | 51.8 | 48.2 | 6,473 | 20.1 | 79 | |
| KZ 275 | 412 | 6,825 | 94.3 | 5.7 | 293 | 6,944 | 95.9 | 4.1 | 3,670 | 50.7 | 49.3 | |
| DC 27 | 43,611 | 75,752 | 63.5 | 36.5 | 41,037 | 78,326 | 65.6 | 34.4 | 14,466 | 12.1 | 87.9 | |

Eradication of backlogs

- Access to basic water: The main objective is to afford households access to basic water. The Municipal Infrastructure Grant (MIG) was used to implement projects. At the beginning of the 2010/2011 Financial Year the estimated households without access to basic water was 43 611. The Department targeted to provide basic water to 5 958 households and that was achieved.
- Access to basic sanitation: The main objective is to give households access to basic sanitation. The MIG funds were utilized to achieve this objective. At the beginning of 2010/11 Financial Year the backlog had been estimated to be 41 037. The Department targeted to provide Ventilated Improved Pit Latrines to 10 600 households and the target was achieved.

Maintenance of Water Services and Energy Infrastructure.

Due to unreliable service and revenue under collection, among other things, proper operations and maintenance of infrastructure did not happen. In the following financial year strategies to bring service back to normality will be implemented. These strategies will go hand in hand with improved revenue collection strategies.

Backlog Eradication Costs

| DETAILS | WATER | SANITATION | WATER & SANITATION | ELECTRICITY | TOTAL |
|---------------|---|---|---|---|---|
| Municipality | Eradication costs (rounded) in millions | Eradication costs (rounded) in millions | Shortfall: Water & Sanitation (in millions) | Eradication costs (rounded) in millions | Total Eradication costs (rounded) in millions |
| KZ 271 | R 939.07 | R 102.63 | R 1,038.70 | R 478.82 | R 1,517.52 |
| KZ 272 | R 770.93 | R 127.37 | R 898.30 | R 898.29 | R 1,796.59 |
| KZ 273 | R 43.70 | R 4.79 | R 48.49 | R 48.49 | R 96.98 |
| KZ 274 | R 658.48 | R 144.66 | R 803.14 | R 803.14 | R 1,606.28 |
| KZ 275 | R 22.98 | R 2.73 | R 25.71 | R 25.71 | R 77.13 |
| DC 27 | R 2,435.16 | R 382.18 | R 2,814.34 | R 2,254.45 | R 5,094.50 |

It is estimated that total eradication costs for the infrastructure would be in the region of about R5bn.

IMPLEMENTATION OF INFRASTRUCTURE PROJECTS

The following report summarises the implementation of infrastructure projects during 2010/2011 financial year:

| WATER AND SANITATION PROJECTS - 2010_2011 | | | | | | | |
|---|--|----------|-----------------|--------|-------------------------|------------------------|------------------------|
| IMPLEMENTING DEPARTMENT: TECHNICAL SERVICES | | | | | | | |
| No. | NAME OF THE PROJECT | LOCATION | TOTAL BUDGET | SOURCE | 2010/2011 BUDGET | ACTUAL EXPENDITURE | VARIANCE |
| 1 | Ezinkanyezini B&C | KZ271 | R61 280 928.00 | MG | R 1,814,312.00 | R 1,682,697.56 | R 131,614.44 |
| 2 | Nshongwe/Maloberi water supply Proj. P.2 | KZ271 | R4 026 004.00 | MG | R 2,998,125.00 | R 861,176.87 | R 2,136,948.13 |
| 3 | Phelandaba Sanitation | KZ271 | R57 158 751.00 | MG | R 7,408,852.00 | R 6,306,355.58 | R 1,102,496.42 |
| 4 | Kwa-Ngwanase Community Water Supply p.2 | KZ271 | R102 657 981.00 | MG | R 14,607,643.00 | R 10,859,150.28 | R 3,748,492.72 |
| 5 | Mphophomeni CWSS Phase 2 | KZ271 | R38 715 718.00 | MG | R 12,174,435.00 | R 2,905,893.06 | R 9,268,541.94 |
| 6 | Shemula Sanitation | KZ271 | R16 428 023 | MG | R 2,629,154.00 | R 715,469.59 | R 1,913,684.41 |
| 10 | Othobothini Water supply project | KZ272 | R7 200 000.00 | MG | R 1,800,000.00 | R 146,790.37 | R 1,653,209.63 |
| 12 | Othobothini Sanitation project | KZ272 | R5 121 087.00 | MG | R 5,121,087.00 | R 4,801,539.32 | R 319,547.68 |
| 15 | Makhasa Sports Complex | KZ273 | R16 574 508.00 | MG | R 2,618,799.00 | R 1,009,391.00 | R 1,609,408.00 |
| 16 | Hluhluwe Phase 3 | KZ273 | R23 000 000.00 | MG | R 3,322,824.00 | R 1,899,129.02 | R 1,423,694.98 |
| 17 | Phumlani Stormwater | KZ273 | R1 200 000.00 | MG | R 846,522.00 | R 34,727.19 | R 811,794.81 |
| 18 | Ezibayeni Water phase 2 | KZ274 | R41 895 535.00 | MG | R 6,539,279.00 | R 775,181.69 | R 5,764,097.31 |
| 21 | Mubatuba Sports Complex | KZ275 | R2 618 799 | MG | R 2,618,799.00 | R 78,164.26 | R 2,540,634.74 |
| 23 | Mubatuba Treatment works Upgrade | KZ275 | R73 000 000.00 | MG | R 30,000,000.00 | R 14,838,908.72 | R 15,161,091.28 |
| 24 | Indlovu Village (Sanitation & Sewerage) | KZ275 | R1 300 000.00 | MG | R 1,300,000.00 | R 135,588.44 | R 1,164,411.56 |
| 25 | Umkhanyakude DM Rural Master Plan | DC 27 | R 15,000,000.00 | MG | R 667,866.66 | R 667,866.66 | R - |
| 26 | Jozini Treatment Works | KZ 272 | 227269.54 | | R 2,854,674.39 | R 2,854,674.39 | R - |
| 27 | Nordale (Sanitation & Sewerage) | KZ275 | R2 400 000.00 | MG | R 2,400,000.00 | R 80,211.54 | R 2,319,788.46 |
| TOTAL | | | | | R 101,722,372.05 | R 50,652,915.54 | R 51,069,456.51 |

DC27 DEVELOPMENT PLANNING SHARED SERVICE (DPSS) INITIATIVE FOR THE PERIOD ENDING JUNE 2011

In the previous municipal reporting period which ended June 2010, it was reported that, the DPSS Initiative was only six (6) months old by then having commenced in January 2010. The focus thereof in the first six months was still on the finalization of the establishment phase of the Unit which included appointment of staff and other related logistics to enable the unit to deliver on its intended mandate of developing, implementing and managing development planning functions within the uMkhanyakude Family of Municipalities. In other very little was reported in terms of actual implementation as per the business plan. Having finalized the establishment phase by June 2010, the focus for the DPSS in the reporting period (July 2010 – June 2011) was going to be actual service delivery in terms of the development planning functions within the entire uMkhanyakude family of Municipalities.

In period under review (July 2010 – June 2011), it is appropriate to report that, among many, the Umkhanyakude DPSS Initiative has been involved in the planning, execution, management, and monitoring of some of the following key performance areas and key performance indicators:

APPOINTMENT OF DPSS STAFF & LOGISTICS

With regards to this DPSS Key Performance Area (KPA) the following key performance indicators were accomplished during the period under review:

- Four (04) of the total of six (06) allocated DPSS Staff members had successfully been filled. These includes: *Chief Planner; Senior Planner (South); Senior Planner (North); and GIS Specialist*. The process of filling vacant positions of (*GIS Data Systems Administrator and PMS Specialist*) was *already* underway and it was anticipated that it would have been finalized by end of September 2011.
- Very importantly lines of communication and reporting for the DPSS Staff was also confirmed and completed during this reporting period.

DPSS FINANCIAL MANAGEMENT AND REPORTING

In this regard the following were achieved:

- KZN Cogta successfully transferred all its funding contributions to the DPSS Fund centrally housed at the District Municipality
- Monthly Financial Reports were compiled and accordingly submitted to KZN Cogta using the system agreed upon between the DPSS and District Finance section as required in terms of the Memorandum of Agreement
- A financial model was agreed upon where all funds were to be transferred by all participating municipalities and Cogta to one central account housed at the District level
- The DPSS in partnership with all Finance departments (that of the District and those of participating Local Municipalities) continued to monitor DPSS expenditure as per the Business Plan.
- The only challenge worth reporting about is the failure by the participating local municipalities to effect the respective funding contributions as per the MOU and Business Plan. This was identified as an area that required special attention moving forward.

DPSS STAFF REPORTING

In this regard the following were achieved:

- Regular progress reports were compiled and submitted to a variety of stakeholders including: Provincial DPSS Manco, District-Wide Mayoral Forum; District-Wide Municipal Managers Forum; District-Wide Development Planning Forum; District and Local Councils and EXCO's; District and Local's Planning Portfolio Committees; District and Local Manco's,
- Also continued to monitor equitable task allocation across shred municipalities

SPATIAL PLANNING

Under this KPA, the DPSS has been able to accomplish the following:

- Have enhanced the functionality of the District-Wide Development Planning Forum
- Have developed a Draft PDA Implementation Process Plan
- Have ensured that SDFs for the District and Five LMs get incorporated in the IDP reviews and were accordingly submitted with the final IDP Review document.

- Review of Town Planning Schemes and/ or LUMS in Municipality ITO of Conversion and Status of Update
- Initiating the processes to Update and Conversion of TPS to LUMS
- Have commenced with the review status of development applications being dealt with by LMs
- Have commenced Working with Dev Admin Section in arranging Training for setting-up comprehensive filing system for development applications following Municipal format
- Ensured that all SDF were aligned with Municipal Capital Budget
- Commenced discussing the development of Wall-to-Wall Schemes within the District family
- Have been involved in the planning, implementation and management of numerous spatial planning type projects throughout the District Municipal area.
- Although no formal PDA Applications was received; processed and decided upon under the reporting but the DPSS Unit had commenced with comments on a range development planning and related applications enquiries and questions.

DEVELOPMENT ADMINISTRATION & MANAGEMENT UPDATE

- Actively participates in workshops and training sessions at both province and district level where PDA is introduced for implementation
- Familiarized and Reviewed existing Development Administration System in all municipalities
- Initiated the processes for Setting-up comprehensive filing system for development applications following Municipal Format e.g. AFS
- Commence with processing of development applications
- Compiled a report for Manco, Portfolio Committee and EXCO on Implications of the PDA on Municipalities;
- Made copies of the New PDA Act accessible to participating LMs, Development Planning Forum members, and the public, as and when required.
- Liaised with and Set up Meeting with Development Administration section of CogTA to review status of development applications within the district family
- Provided planning comments and advise to Management and communities as and when required
- Commenced with the DC27 PDA Implementation State of Readiness Process Plan for the District
- Have convened a total of two District-wide PDA Training Sessions for Planning practitioners in the District
- Have made presentations on PDA on various platforms and meetings throughout the district

MUNICIPAL STRATEGIC PLANNING UPDATE

- Assisted in ensuring that IDP Process Plan and Framework Plans are completed by due date
- Assisted in ensuring that IDP are credible and adopted by due date.
- Facilitated effective stakeholder Participation in the IDP process
- Facilitated effective alignment of IDPs and Sector Departments
- Attended IDP Steering Committee Meetings for DC27 and LM
- Attended IDP Representative Forum Meetings for LMs and DM
- Commented on the DC27 and LMs 2010/2011 IDP Review Documents
- Participated and contributed in the District IDP Consultative Workshops
- Contributed in the Development of the SDBIP for the DPSS in the District
- Attend and Participate in the Provincial IDP Stakeholder Workshops

PERFORMANCE MANAGEMENT SYSTEMS (PMS) UPDATE

- Active Member of the KZN DPSS Manco Meetings which are held Monthly to monitor implementation of the Shared Services Initiative throughout the Province
- Review status of PMS in all Municipalities in District family to establish support requirements
- Provide strategic input to PMS officers in Municipalities to establish: (i) organisational PMS; and (ii) individual PMS on planning functions ITO criteria identified by DLGTA
- Work with PMS officers in implementation of PMS in Municipalities
- Monitor implementation of PMS in each Municipality
- Work with PMS officers in preparation of annual PMS reports (Section 46 reports) to DLGTA
- Work with Municipalities in undertaking annual review of DPSS and preparing a report for presentation to Mayors Forum, MMs Tech Forum and Planners Forum
- Work with Municipal CFOs in accounting for annual expenditure to DLGTA for DPSS Grant ITO Business Plan
- Review training plan on an annual basis and establish status of capacity of staff and assess value of training
- Recommend to MMs Tech Forum further training requirements of DPSS and LM Planning staff.
- Identify and institute mentoring plan for DPSS and Municipal staff where appointed DPSS staff do not have capacity to perform PMS mentorship role
- Facilitate and support participation of municipalities in Performance Excellence Awards
- Support Performance Audit Committees in each of the Municipalities where feasible.

ENVIRONMENTAL MANAGEMENT UPDATE

- Involved in the Implementation of the District-Wide Environmental Management Framework (EMF) Project
- Commented on numerous Environmental Management applications as an interested and affected party on behalf of the District

GEOGRAPHICAL INFORMATION SYSTEMS (GIS) AND INFORMATION MANAGEMENT UPDATE

This component of the DPSS has been busy in the following areas:

- Generally there is a great progress with GIS Functionality and Information capturing has already commenced and in advance stage especially with coming of the GIS Specialist
- Most of the basic GIS Hardware & Software has been acquired
- First Detailed Implementation progress Report /Control Sheet was compiled and submitted to COGTA GIS Working Group with the 2nd due for submission on 26th May 2011
- The GIS Specialist Position has been filled and incumbent commenced on the 1st June 2011
- Must Still fill the Position of GIS Data Systems Administrator
- With the new GIS Personnel on board it is anticipated that this Unit will move with speed to implementation of the Unit Business Plan in the next few weeks.
- GIS strategy has been completed, GIS specialist need to meet COGTA officials for further deliberations and then submit it to council for adoption.
- Acquired Base Data for all the LMs (Cadastral and Images).
- User requirements have been done for 5 LMs except Umhlabuyalingana.
- Data with ownership details have been acquired.
- The specialist have to go and acquire some District Data from the consultants who were doing work for the district
- Active member of the provincial DPSS GIS Task Team

IDP AND PMS PROGRAMME FOR 2010/2011

| Month | IDP Steering Committee | Development Planning Forum | IDP Representative Forum | Public Consultation | PMS |
|--------------|------------------------|----------------------------|--------------------------|--|---|
| July | 20 July 2009 | | | | 4th Quarterly Review (09/10) 13 July 2010 |
| August | | 05 Aug 2009 | | | Performance Report 31 August 2010 |
| September | 07 Sep 2009 | | 23 Sep 2009 | | Annual Review (09/10) 15 September 2010 |
| October | | 28 October 2009 | | | 1st Quarterly Review 12 Oct 2010 |
| November | 09 Nov 2009 | | 25 Nov 2009 | | |
| December | | | | | |
| January | 11 January 2010 | 14 January 2010 | | | 2nd Quarterly & Mid Term Review 11 January 2011 Annual Report (09/10) 13 January 2011 |
| February | | 23 February 2010 | | | |
| March | 08 March 2010 | | | 02 March 2010 03 March 2010 04 March 2010 05 March 2010 | |
| April | | 21 April 2010 | 13 April 2010 | | 3rd Quarterly Review 12 April 2011 |
| May | 24 May 2010 | 26 May 2010 | | | |
| June | | | 09 June 2010 | | 4th Quarterly/Annual Review (12 July 2011) |
| Total | 6 | 6 | 4 | 4 | |

Schedule of meetings happen in a financial year that precedes (09/10) the financial year of the implementation of the IDP (10/11)

- About 4 IDP SC meetings happened (the 1st and the 5th meetings could not sit as MANCO was tied up with other activities)
- All Development Planning meetings happened successfully
- Only first three IDP RF meetings happened (the last one could not sit as very few stakeholders confirmed their attendance)
- IDP/Budget consultative meetings were successful
- PMS reporting still needs to be improved as quarterly assessments did not happen.

PREPARATION OF THE IDP FOR 2010/2011

At the end of March for each and every financial year, IDPs throughout the Province are submitted to the COGTA for credibility assessment. This session lasts for about a week. After the session feedback is then given to municipalities and areas for improvement are then highlighted. At the end of June the IDP documents are then finally submitted to the MEC for comments. The IDP for Umkhanyakude District Municipality was also subjected to a similar process and the following credibility scores were achieved:

| MUNICIPALITY | KPA (KEY PERFORMANCE AREA) | | | | | | | | Final Score 10/11 | Final Score 09/10 |
|----------------------------|----------------------------|------------|---------------------------|------------|---------------------|------------|-----------------|---------------|-------------------|-------------------|
| | Service Delivery | Inst Dev | Spatial Planning & Enviro | LED | Financial Viability | Good Gov | General Outlook | | | |
| Umhlabuyalingana | 3 | 2.5 | 2 | 3 | 3 | 2.5 | 3.5 | 55.71% | 40.74% | |
| Jozini | 3.5 | 3 | 4 | 3.5 | 2.5 | 2 | 3 | 61.43% | 50% | |
| The Big 5 False Bay | 2 | 3 | 2.5 | 2.5 | 2.5 | 3 | 2.71 | 54.29% | 51.85% | |
| Hlabisa | 3.5 | 4 | 3.5 | 3 | 3 | 4 | 3.43 | 68.57% | 68.52% | |
| Mtubatuba | 3.5 | 3 | 4 | 2 | 3 | 3 | 4 | 64.29% | 59.26% | |
| Umkhanyakude | 3.5 | 3.5 | 3 | 2.5 | 3.5 | 3.5 | 4 | 67.14% | 75.93% | |

- The maximum score for each KPA is 5.
- Generally all municipalities performed well.
- The DM scored 67.14% which was 8.79% lower than the previous

IMPLEMENTATION OF THE IDP

| KPA | ISSUES ADDRESSED |
|--|--|
| Good Governance and Community Participation | Development of Public Participation and Communication strategy; Improved relations with local municipalities; effective IGR and elimination of corruption. |
| Basic Service Delivery | Provision of basic services (water, electricity and sanitation); Infrastructure backlogs, Implementation of O&M Plan. |
| Local Economic Development | Creation of a growing local economy and sustainable neighborhoods through Tourism, Agriculture and Industry; capacity building through Business Support and Development of the Municipal Entity; Effective District LED Coordinating Forum |
| Institutional Transformation and Development | Develop HR Strategy; ensure Integrated Development Planning; ensure Organizational Performance Management through the review of the Performance Management System. |
| Municipal Financial Viability and Management | Improved revenue and cash management capability; sound Supply Chain Management through implementation of SCM Policy; Capital & Operational Budget expenditure monitoring and reconciliation; Sound Financial Planning and reporting |
| Spatial Planning and Environmental Management | Review of the District-wide SDF; Development and Adoption of the District-Wide Environmental Management Framework (EMF); Formulation and Adoption of Delegations for all LMs to PDA |
| Social Development | Development of a Social Cohesion Plan; Review HIV/AIDS strategy; Develop a Disability Action Plan; Develop a Gender Action Plan; Develop a District-wide Disaster Management Plan; conduct Environmental health campaigns. |

- The reporting mechanisms through the PMS still needs to be improved.
- Proper structures to monitor the implementation of the IDP need to be effective (audit committee, municipal SCOPA etc)
- Internal Audit unit need to be establish and there should be less reliance on service providers for performing this function.
- More details on performance targets are contained in **Annexure 1**.
- **Annexure 2** contains more details on financial performance.
- **Annexure 3** contains details on Financial Recovery Plan
- **Annexure 4** contains details on local economic development issues which are championed by uMhlosinga Development Agency.

MUNICIPAL TURNAROUND STRATEGY

The following priorities have been identified for the Municipal Turnaround Strategy:

| NO. | PRIORITY AREAS | PLANNED INTERVENTIONS |
|-----|---|---|
| 1 | Packaging of interventions and source funding to address backlogs on water and sanitation services provision in UMkhanyakude District | <ul style="list-style-type: none"> Appointment of consultants to prepare business plans for MIG projects. |
| 2 | Development of Operations and Maintenance Plan for the water services infrastructure | <ul style="list-style-type: none"> Call for service providers to undertake to inspect and advise council. To develop operationa and maintenance plan |
| 3 | To increase number of electricity connections throughout the UMkhanyakude District | <ul style="list-style-type: none"> Engagement of ESKOM, as the major supplier of electricity |
| 4 | Revenue enhancement, cash flow management and debtors management | <ul style="list-style-type: none"> Aggressive debt collections from business, government and domestic consumers To undertake data cleansing exercise Acquire new financial systems |
| 5 | Reduce water losses | <ul style="list-style-type: none"> Replacement of faulty water metres Resolving illegal water connections Install bulk water metres Upgrading and maintenanceof ageing infrastructure |
| 6 | Unqualified audit opinion | <ul style="list-style-type: none"> Immediate appointment of CFO Resolving audit queries timeously Developing an Internal Audit Unit To streamline the functioning of the Supply Chain Management Unit |
| 7 | Capacity building and skills development | <ul style="list-style-type: none"> Compilation of Skills Development Plan Undertake the skills audit plan |
| 8 | Filling of critical vacant positions | <ul style="list-style-type: none"> Identify savings in order to fund critical posts Filling of critical but funded posts |
| 9 | Increased level of public participation | <ul style="list-style-type: none"> Development of public participation strategy |
| 10 | Efficient and effective management of LED programmes and projects | <ul style="list-style-type: none"> Development of a District LED Framework Plan Coordinated and integrated approach between the District and local municipalities Development of anchor projects to grow local economy and create jobs |
| 11 | Development of a Shared Service initiative on specialised areas. | <p>Development of shared services in the following areas:</p> <ul style="list-style-type: none"> Development Planning Audit Committee Enhancement of the District IGR capacity Disaster Management |

- Close monitoring of the MTAS still needs to be improved as there was no meaningful achievement on identified priorities

CHAPTER 3: HUMAN RESOURCE & ORGANIZATION MANAGEMENT

ORGANIZATIONAL STRUCTURE

The UMkhanyakude District Municipality's organizational structure comprises of the following five (5) departments under the office of the Municipal Manager:

Corporate Services Department

Financial Services Department

Technical Services Department

Social, Planning and Economic Development (SED) Department

Community Services Department

The Municipal Manager's office holds the accountability and responsibility for the effective and sound financial administration of the Municipality. It also provides executive support to the political structure through administration of special programmes: Youth Development; Gender & Women Empowerment; capacity building and support to Local Municipalities.

The total number of staff employed in each of the five departments on the organizational structure is as follows:

| DEPARTMENTS | NUMBER OF EMPLOYEES |
|--|---------------------|
| Office of the Municipal Manager | 06 |
| Corporate Services | 31 |
| Finance Services | 40 |
| Technical Services | 235 |
| Dept. of Social & Economic Development | 12 |
| Community Services | 12 |
| TOTAL | 337 |

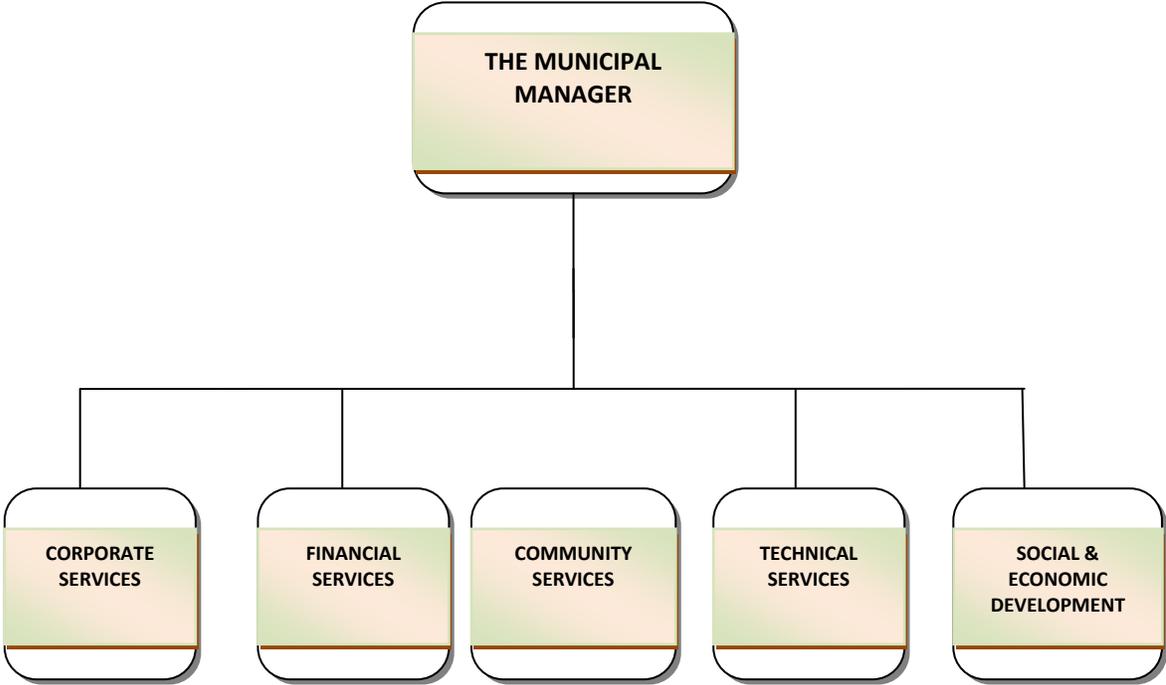
EMPLOYEE-RELATED COST

The table below depicts the expenditure for salaries in comparison with the total salary budget for the period of three financial years up to 2010/11:

| Details | 2008/2009 | 2009/2010 | 2010/2011 |
|--------------------------|------------------|------------------|------------------|
| Salary Budget | 52 181 686 | 63 490 685 | 65,714,088 |
| Actual Total Expenditure | 46 754 936 | 50 874 550 | 55,085,615 |
| Variance | 5 426 750 | 12 616 135 | 11,628,473 |

ORGANOGRAM

TOP MANAGEMNET



FUNCTIONS AND KEY PERFORMANCE AREAS PER DEPARTMENT

The duties and responsibilities of each department, including the office of the Municipal Manager are presented below:

| DC COUNCIL | | | | |
|--|---|--------------------------------|----------------------------|---------------------------------------|
| EXECUTIVE COMMITTEE | | | | |
| OFFICE OF THE MAYOR | | | | |
| OFFICE OF THE MUNICIPAL MANAGER | | | | |
| Strategic Programme; Integrated Development Planning; Performance Management Communication & Marketing and Spatial Development Planning | | | | |
| CORPORATE SERVICES | COMMUNITY SERVICES | FINANCIAL SERVICES | TECHNICAL SERVICES | SOCIAL & ECONOMIC SERVICES |
| Human Resource Management | Social Development | Supply Chain Management | Infrastructure Development | Local Economic Development |
| Labour Relations | Sports, Culture & Recreation | Revenue | Water and Sanitation | Tourism Development |
| Administration and Secretariat | Youth and Disability desks | Grants and Expenditure | Water Quality Management | |
| Auxiliary Services | Disaster Management | Budget and financial reporting | Project Financial Control | |
| Fleet Control Management | Municipal Health and Environmental Services | Administration support | Electricity services | |
| IT Services | HIV/AIDS | Assets Management | | |

MUNICIPAL VISION & MISSION

Vision

“To meet basic needs and improve quality of the community in a democratic and sustainable manner”

Mission

“To deliver basic services to its people, support local municipalities to become viable; and good governance”; guided by the following core values:

Integrity; Equity; Transparency; Team work; Respect; Accountability; and Peace.

EMPLOYER/EMPLOYEE RELATIONS

Umkhanyakude District Municipality and organized labour generally continued engaging on labour relations and/or employer/employee issues during the period under review.

The Local Labour Forum has been tasked with specific responsibilities such as to consult and negotiate on all matters affecting employees. Such a process has been handled through scheduled Local labour Forum meetings and is operating very well and consensus-driven.

Corporate Department also provides services such as:

- Procedures on handling of processes coming from collective agreement; and
- Performance and incapacity-related matters

With regards to disciplinary matters and disputes; such issues are dealt with through a detailed collective agreement on grievance procedures and disciplinary procedures.

DISCLOSURE CONCERNING COUNCILORS AND SENIOR OFFICIALS

The councilor EXCO members' remuneration in the financial year under review was as follows:

| DETAILS | UIF | PENSION | MEDICAL AID | TOTAL AMOUNT |
|--------------|----------|------------|-------------|--------------|
| MAYOR | 1,372.58 | 53,896.08 | - | 704,667.08 |
| DEPUTY MAYOR | 748.68 | 25,008.57 | - | 332,048.39 |
| SPEAKER | 1,247.80 | 36,668.54 | 8,640.00 | 404,389.87 |
| EXCO 1 | 1,372.58 | 35,025.31 | - | 405,173.83 |
| EXCO 2 | 1,372.84 | 43,116.84 | - | 440,966.51 |
| TOTAL | 6,115.00 | 197,716.00 | 8,640.00 | 2,287,246.00 |

The above figures are inclusive of all the benefits and allowances such as cell/telephone allowance, travel claims and other allowances.

Additional benefits for Councilors

EXCO members are full time and therefore provided with secretariat support (in case of the Mayor) and office accommodation (EXCO members are chairpersons of the Portfolio committees, as such have offices within the premises of the municipality). The Mayor's office is also within the premises of the municipality.

Section 57 employee Remuneration - Cost to the Council

Senior officials were remunerated in terms of agreements signed with them. There were no performance bonuses paid to any Section 57 employee. That could be attributed to the absence of a Performance Management System at the time, which meant performance evaluation could not have happened. It should be noted that signed performance agreements and performance management systems are the main basis for determining performance bonuses.

The remuneration of Section 57 in the financial year under review was as follows:

| Details | BASIC SALARY | TOTAL REMUNERATION |
|---|------------------------|---------------------------|
| The Municipal Manager | R 887,201.00 | R 1,023,258.00 |
| Chief Financial Officer | Post vacant | - |
| Executive Director (Corporate Services) | R 580,754.00 | R 795,144.00 |
| Executive Director (Technical Services) | R 495,981.00 | R 869,600.00 |
| Executive Director (Community Services) | Post vacant | - |
| Executive Director (SED Services) | R 548,303.00 | R 870,044.61 |
| TOTAL | R 2, 512,230.01 | R 2, 535,810.61 |

The total remuneration for Section 57 is inclusive of:

- Salary;
- Travel allowance;
- Housing allowance; and other benefits.

EMPLOYMENT EQUITY PROFILE

The following UMkhanyakude District Municipality's Employment Equity Profile reflected the nature of appointments in different occupational levels:

DEMOGRAPHIC PROFILE FOR EMPLOYEES (2010/2011)

Workforce Profile and Core & Support Functions: DC 27

| Occupational Levels | Male | | | | Female | | | | Foreign Nationals | | Total |
|--|------------|----------|----------|----------|-----------|----------|----------|----------|-------------------|----------|------------|
| | A | C | I | W | A | C | I | W | Male | Female | |
| Senior management | 17 | 0 | 0 | 1 | 5 | 0 | 1 | 0 | 0 | 0 | 24 |
| Professionally qualified and experienced specialists and mid-management | 19 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 25 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 28 | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 33 |
| Semi-skilled and discretionary decision making | 79 | 0 | 0 | 0 | 56 | 0 | 0 | 0 | 0 | 0 | 135 |
| Unskilled and defined decision making | 23 | 0 | 0 | 0 | 10 | 0 | 0 | 0 | 0 | 0 | 33 |
| <i>TOTAL PERMANENT</i> | 166 | 0 | 0 | 1 | 82 | 0 | 1 | 0 | 0 | 0 | 250 |
| Temporary employees | 79 | 0 | 0 | 0 | 8 | 0 | 0 | 0 | 0 | 0 | 87 |
| GRAND TOTAL | 245 | 0 | 0 | 1 | 90 | 0 | 1 | 0 | 0 | 0 | 337 |

Employees with Disabilities

| Occupational Levels | Male | | | | Female | | | | Foreign Nationals | | Total |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-------------------|----------|----------|
| | A | C | I | W | A | C | I | W | Male | Female | |
| Senior management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Professionally qualified and experienced specialists and mid-management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Semi-skilled and discretionary decision making | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unskilled and defined decision making | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>TOTAL PERMANENT</i> | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Temporary employees | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| GRAND TOTAL | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 2 |

Core Operation Functions and Support Functions by Occupational Level

| Occupational Levels | Male | | | | Female | | | | Foreign Nationals | | Total |
|--|------------|----------|----------|----------|-----------|----------|----------|----------|-------------------|----------|------------|
| | A | C | I | W | A | C | I | W | Male | Female | |
| Senior management | 17 | 0 | 0 | 1 | 5 | | 1 | | 0 | 0 | 24 |
| Professionally qualified and experienced specialists and mid-management | 19 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 25 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 28 | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 33 |
| Semi-skilled and discretionary decision making | 79 | 0 | 0 | 0 | 56 | 0 | 0 | 0 | 0 | 0 | 135 |
| Unskilled and defined decision making | 23 | 0 | 0 | 0 | 10 | 0 | 0 | 0 | 0 | 0 | 33 |
| <i>TOTAL PERMANENT</i> | 166 | 0 | 0 | 0 | 82 | 0 | 1 | 0 | 0 | 0 | 250 |
| Temporary employees | 79 | 0 | 0 | 0 | 8 | 0 | 0 | 0 | 0 | 0 | 87 |
| GRAND TOTAL | 245 | 0 | 0 | 1 | 90 | 0 | 1 | 0 | 0 | 0 | 337 |

TERMINATION

Termination by Occupational Level

| Occupational Levels | Male | | | | Female | | | | Foreign Nationals | | Total |
|--|-----------|----------|----------|----------|----------|----------|----------|---|-------------------|----------|-----------|
| | A | C | I | W | A | C | I | W | Male | Female | |
| Senior management | 3 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 4 |
| Professionally qualified and experienced specialists and mid-management | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 3 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 4 |
| Semi-skilled and discretionary decision making | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Unskilled and defined decision making | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| <i>TOTAL PERMANENT</i> | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Temporary employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| GRAND TOTAL | 11 | 0 | 0 | 0 | 4 | 0 | 1 | | 0 | 0 | 16 |

Termination Category

| Terminations | Male | | | | Female | | | | Foreign Nationals | | Total |
|---|-----------|----------|----------|----------|----------|---|----------|---|-------------------|----------|-----------|
| | A | C | I | W | A | C | I | W | Male | Female | |
| Resignation | 6 | 0 | 0 | 0 | 2 | | 1 | | 0 | 0 | 9 |
| Non-renewal of contract | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| retrenchment – Operational requirements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dismissal - misconduct | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dismissal - incapacity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Retirement | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Death | 4 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 6 |
| TOTAL | 11 | 0 | 0 | 0 | 4 | | 1 | | 0 | 0 | 16 |

Skills Development

| Occupational Levels | Male | | | | Female | | | | Total |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| | A | C | I | W | A | C | I | W | |
| Senior management | 3 | 0 | 0 | 0 | | | 1 | | 4 |
| Professionally qualified and experienced specialists and mid-management | 4 | 0 | 0 | 0 | | 0 | 0 | 0 | 4 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 1 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 4 |
| Semi-skilled and discretionary decision making | 0 | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 5 |
| Unskilled and defined decision making | 0 | 0 | 0 | 0 | | 0 | 0 | 0 | |
| <i>TOTAL PERMANENT</i> | 8 | 0 | 0 | 0 | 8 | 0 | 1 | | 17 |
| Temporary employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| GRAND TOTAL | 8 | 0 | 0 | 0 | 8 | 0 | 1 | 0 | 17 |

PENSIONS AND MEDICAL AID FUNDS AND FUTURE RISKS

All employees are provided with pension fund and medical aid of their choice. In terms of Natal Joint Municipal Pension/ Provident Fund, employees have three (3) options to choose from i.e. Superannuation, Provident & Retirement. Employees transferred from Government Departments belong to Government Employees Pension Fund. There are five options upon which employees have to choose from with regard to the medical aid: The list of Pension Funds and Medical Aids are as follows:

| PENSION FUND | MEDICAL AID | FUTURE RISKS |
|--|--|---|
| <ul style="list-style-type: none"> ➤ Natal Joint Municipal Pension/Provident Fund; and ➤ Government Employees Pension Fund | <ul style="list-style-type: none"> ➤ Bonitas ➤ LA Health ➤ Hosmed ➤ Samwumed ➤ Key Health | <ul style="list-style-type: none"> ➤ Prolonged illness of employees; ➤ High death rate of employees |

LABOUR RELATIONS

During 2010/11 FY we had ten (10) Labour Cases that were attended to, seven (7) of them were concluded. Three (3) of them are still pending due to none payment of Presiding Officers.

| NUMBER OF CASES | NUMBER OF CASES CONCLUDED | NUMBER OF PENDING CASES |
|-----------------|---------------------------|-------------------------|
| 10 | 7 | 3 |

OUTCOME OF THE DISCIPLINARY HEARINGS

- Three (3) staff members issued with final written warnings valid for 12 months.
- One (1) staff member sanctioned with maximum of 10 days suspension without pay.
- One (1) staff member dismissed.
- One (1) staff member resigned after being charged.
- Settlement agreement was reached between the Employer and one (1) employee.

ADMINISTRATION AND SECRETARIAT

This section is composed of four (4) sub-sections i.e. Committee, Auxiliary Services, Registry and Fleet Management. The core-function of the section is to oversee proper functioning of the aforesaid sub-sections.

COMMITTEE

Committee sub-section is responsible for compilation of ExCo and Council Agendas, co-ordination of Portfolio Committee Meetings and minutes taking.

| NUMBER OF COUNCIL MEETINGS HELD | | NUMBER OF EXCO MEETINGS HELD | | NUMBER OF PORTFOLIO COMMITTEE MEETINGS HELD | |
|---------------------------------|--------|------------------------------|--------|---|--------|
| Planned | Actual | Planned | Actual | Planned | Actual |
| 4 | 4 | 11 | 11 | 60 | 22 |

Thirty eight (38) Portfolio Committee Meetings did not sit due to the fact that members could not form a quorum.

AUXILIARY SERVICES

Auxiliary sub-section administers Service Providers contracted to Umkhanyakude District Municipality as specified herein below:

| NAME OF SERVICE PROVIDER | SERVICE PROVIDED | TOTAL COST |
|--------------------------|-------------------------------|----------------|
| Nashua | Provides PABX System | R 564 000.00 |
| North Coast Zululand | Provides Office Automation | R 276 000.00 |
| Steiner Hygiene | Provides Hygiene Services | R 73 428.23 |
| Aros Security Services | Provides Security Services | R 1 061 142.14 |
| Telkom | Provides Communication System | R456 000.00 |

During 2010/11 Financial Year, the above service providers withdrew their services as a result of none payment due to financial constraints.

REGISTRY

This sub-section is responsible for records keeping and monitoring of incoming and outgoing correspondences in terms of the requirements of National Archives.

FLEET MANAGEMENT

Fleet sub-section is responsible for the management of fleet operation. R 5, 6 Million was budgeted for 2010/11 financial year. The Municipality operated with fifty two (52) vehicles, of which twenty two (22) were hired from AVIS Fleet Services.

IT SERVICES

IT section is responsible for the management of computer equipment, IT infrastructure which consists of five (5) servers i.e. DIMS, ABAKUS, PAYDAY, CREDIT CONTROL and EMAIL, Networking and IT Security.

| NAME OF SERVICE PROVIDER | SERVICE PROVIDED | TOTAL COST |
|--------------------------|--|--------------|
| Telkom | Provides Virtual Private Network (VPN) | R 636 000.00 |
| Fujitsu | Provides Financial System Support | R 132 000.00 |
| PayDay | Provides Payroll and HR System | R 24 000.00 |

During 2010/2011 financial year, twenty (20) computers were purchased with the amount of R100 000.00.

CHAPTER 4: AUDITED FINANCIAL STATEMENTS

See Annexure 2.

ANNEXURE 1: PERFORMANCE REPORT – 2010/2011

DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

ANNUAL MUNICIPAL PERFORMANCE REPORT

| | | | | | | |
|--|--------------------------|---|---|---|---|------------------------------------|
| NAME OF MUNICIPALITY: UMKHANYAKUDE DISTRICT MUNICIPALITY | SELECT THE QUARTER: | 1 | 2 | 3 | 4 | FINANCIAL YEAR ENDED: 30 JUNE 2011 |
| | TICK THE APPLICABLE BOX: | ✓ | ✓ | ✓ | ✓ | |

| Priority Area | National KPA | No. | Indicators | Unit of Measure/ Calculation | Annual | | | 2010/2011 | | Blockages | Corrective Measures | Support needed in terms of unblocking | Source of Information |
|---|---|-----|--|--|---------|----------|---------|-----------|--|--|---|--|-----------------------------|
| | | | | | Demand | Baseline | Backlog | Target | Progress Achieved | | | | |
| Access to Basic (or higher) Water | Basic Service Delivery and Infrastructure Development | 1 | Number of Households with access to basic (or higher) levels of water | No. of Households | 119363 | No Data | 43611 | 5958 | 5958 | Some planned projects did not start due to consultants not being appointed on time | Processes to appoint need to be fast-tracked internally | None | MIG Business Plan |
| Access to Free Basic Water | | 2 | Number of households with access to free basic water | No. of Households | 119363 | No Data | No Data | 2702 | 2702 | estimated figres based on the population figures and backlog data | Credible indigent register to be developed | None | MIG Business Plan |
| Access to Basic (or higher) Sanitation | | 3 | Number of Households with access to basic (or higher) levels of sanitation | No. of Households | 119363 | No Data | 41037 | 10600 | 10600 | some planned project did not start due to consultants not being appointed | Processes to appoint need to be fast-tracked internally | None | MIG Business Plan |
| Access to Free Basic Sanitation | | 4 | Number of households with access to free basic sanitation | No. of Households | 119363 | No Data | No Data | 7745 | 7745 | estimated figres based on the population figures and backlog data | Credible indigent register to be developed | None | MIG Business Plan |
| Access to basic (or higher) Electricity | | 5 | Number of Households with access to basic (or higher) levels of electricity | No. of Households | 119363 | N/A | 104897 | 3000 | 0 | Eskom is dealing with the issues of electricity connections | Target to be removed in future | COGTA to clarify the need for DMs to continue reporting on this target | MIG Business Plan |
| Access to Free Basic Electricity | | 6 | Number of households with access to free basic electricity | No. of Households | | | | 2500 | 0 | Eskom is dealing with the issues of electricity connections | Credible indigent register to be developed | None | |
| Access to Basic (or higher) Refuse Removal and Solid Waste disposal | | 7 | Number of Households with access to basic (or higher) refuse removal | No. of Households | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| Access to municipal roads | | 8 | Kilometers of new municipal roads constructed | Kilometers | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| Human Settlements | | 9 | No. of new houses constructed | No. of Households | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| Formalization of informal settlements | | 10 | No. of households in informal settlements provided with water | No. of Households | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| | | 11 | No. of households in informal settlements provided with Sanitation | No. of Households | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| | | 12 | No. of households in informal settlements provided with Electricity | No. of Households | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| Disaster Management | | 13 | Number of disasters prevented, mitigated and preparedness | No. of Disasters prevented | No Data | No Data | No Data | No Data | No Data | No Data | | | |
| | | 14 | | No. of Disasters mitigated | No Data | No Data | No Data | No Data | No Data | No Data | | | |
| | | 15 | | % Preparedness | No Data | No Data | No Data | No Data | No Data | No Data | | | |
| Repairs and maintenance | | 16 | Service delivery interruptions per type of service (time per quarter) and no. of households affected | No. of interruptions | No Data | No Data | No Data | No Data | No Data | No Data | | | |
| | | 17 | | No. of Households | No Data | No Data | No Data | No Data | No Data | No Data | | | |
| Revenue Management | Financial Viability and Financial Management | 18 | Quarterly collection rate on billings | % Collection rate (Total receipts for services/ Total billings for services) | N/A | N/A | N/A | No Data | 50.63% (20,230,258.47/ 39,955,390.83) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 19 | Percentage growth in revenue collected by the municipality as a % of projected revenue target | % Growth in revenue collected (Actual revenue collected for this quarter/ Targeted revenue collection for this quarter) - (Actual revenue collected previous quarter/ Targeted revenue collected previous quarter) x 100% | N/A | N/A | N/A | No Data | 64.35% (20,230,258.47/ 31,438,518.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 20 | % of budgeted revenue for property rates collected (implementation of the Municipal Property Rates Act, 2004 (Act no. 6 of 2004) | % Property rates collection (Total property rates received for the quarter/ Total property rates budgeted for the quarter) x 100 | N/A | N/A | N/A | No Data | 140.28% (883,076.25/ 629,505.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 21 | Grants as a % of revenue received | % Achieved (Total grants received/ Total revenue received) x 100 | N/A | N/A | N/A | No Data | 79.63% (185,913,415.92/ 233,459,153.58) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |

DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

ANNUAL MUNICIPAL PERFORMANCE REPORT

| | | | | | | |
|--|--------------------------|---|---|---|---|------------------------------------|
| NAME OF MUNICIPALITY: UMKHANYAKUDE DISTRICT MUNICIPALITY | SELECT THE QUARTER: | 1 | 2 | 3 | 4 | FINANCIAL YEAR ENDED: 30 JUNE 2011 |
| | TICK THE APPLICABLE BOX: | ✓ | ✓ | ✓ | ✓ | |

| Priority Area | National KPA | No. | Indicators | Unit of Measure/ Calculation | Annual | | | 2010/2011 | | Blockages | Corrective Measures | Support needed in terms of unblocking | Source of Information |
|------------------------|--|-----|---|---|--------|----------|---------|---------------|--|--------------------------------|---|---------------------------------------|-----------------------------|
| | | | | | Demand | Baseline | Backlog | Target | Progress Achieved | | | | |
| Debt Management | Financial Viability and Financial Management.... | 22 | R debtors outstanding as a % of revenue received for services | % Achieved (Total outstanding debtors/ Actual revenue received for services) x 100 | N/A | N/A | N/A | No Data | 584.17% (118,179,739.00/20,230,258.47) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 23 | % of debt over 90 days | % of debtors >90 days (Total outstanding debtors >90days/ Total outstanding debtors) x 100 | N/A | N/A | N/A | No Data | 88.15% (104,181,253.00/118,179,739.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 24 | Debtors collected as a % of money owed to the municipality | % Debtors collections (Actual revenue received for services/ Total outstanding debtors) x 100 | N/A | N/A | N/A | No Data | 17.12% (20,230,258.47/118,179,739.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 25 | Debt coverage | Ratio ((Total operating revenue received) - (operating grants received)/ debt service payments due, including interest and capital) | N/A | N/A | N/A | No Data | 16.61% (233,459,153.58-185,913,415.92/286,177,699.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 26 | Cost coverage | Ratio ((All available cash at a particular time) + (Investments)/ Monthly fixed operating expenditure) | N/A | N/A | N/A | No Data | 1.64% (93,915,173.10 + 269,611,067.55/239,553,928) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| Expenditure Management | Financial Viability and Financial Management.... | 27 | Quarterly operational expenditure as a % of planned expenditure | % Achieved (Actual operational expenditure for this quarter/ Budgeted operational expenditure for this quarter) x 100 | N/A | N/A | N/A | No Data | 141.04% (238,553,928.00/169,135,595.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 28 | Quarterly capital expenditure as a % of planned capital expenditure | % Achieved (Actual capital expenditure for this quarter/ Budgeted capital expenditure for this quarter) x 100 | N/A | N/A | N/A | No Data | 25.34% (47,864,705.00/188,857,065.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 29 | % of operational budget spent on repairs and maintenance (Is this for the quarter or year to date?) | % Achieved (Total repairs and maintenance expenditure/ Total operational budget) x 100 | N/A | N/A | N/A | No Data | 0.24% (403,830.18/169,135,595.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 30 | Quarterly repairs and maintenance expenditure | Rand value | N/A | N/A | N/A | No Data | R 403,830.18 | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |
| | | 31 | MIG expenditure as a % of annual allocation | % Achieved (Actual MIG expenditure for the quarter/ Annual allocation) x 100 | N/A | N/A | N/A | R 157,004,565 | 30.94% (47,864,705.00/157,004,565.00) | | | None | Annual Financial Statements |
| | | 32 | % of a municipality's capital budget actually spent on capital projects | % Spent (Total spending on capital projects / Total capital budget) x 100 | N/A | N/A | N/A | No Data | 25.34% (47,864,705.00/188,857,065.00) | There were no targets in place | Targets to be provided for in the SDBIP for Finance Dept - 11/12 FY | None | Annual Financial Statements |

DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

ANNUAL MUNICIPAL PERFORMANCE REPORT

| | | | | | | |
|--|--------------------------|---|---|---|---|------------------------------------|
| NAME OF MUNICIPALITY: UMKHANYAKUDE DISTRICT MUNICIPALITY | SELECT THE QUARTER: | 1 | 2 | 3 | 4 | FINANCIAL YEAR ENDED: 30 JUNE 2011 |
| | TICK THE APPLICABLE BOX: | ✓ | ✓ | ✓ | ✓ | |

| Priority Area | National KPA | No. | Indicators | Unit of Measure/ Calculation | Annual | | | 2010/2011 | | Blockages | Corrective Measures | Support needed in terms of unblocking | Source of Information | |
|---------------------------------|---|--|--|---|--------|----------|---------|-----------|---|--|--|---------------------------------------|-----------------------|----------------------|
| | | | | | Demand | Baseline | Backlog | Target | Progress Achieved | | | | | |
| Unqualified audit | | 33 | Annual Audit Opinion - 09/10 | Qualified | N/A | N/A | N/A | N/A | N/A | | | | | |
| | | 34 | | Unqualified | N/A | N/A | N/A | N/A | Yes | None | None | None | | |
| | | 35 | | Disclaimer | N/A | N/A | N/A | N/A | N/A | | | | | |
| Integrated Development Planning | Municipal Transformation and Institutional Development | 36 | Timeous adoption of IDP | Yes/No | N/A | N/A | N/A | N/A | Yes | None | | | Council Minutes | |
| | | 37 | | Date adopted | N/A | N/A | N/A | N/A | 30-Jun-10 | | | | | |
| | | 38 | Timeous adoption of Budget | Yes/No | N/A | N/A | N/A | N/A | Yes | None | | | | Council Minutes |
| | | 39 | | Date adopted | N/A | N/A | N/A | N/A | 30-Jun-10 | | | | | |
| | | 40 | Timeous adoption of SDBIP | Yes/No | N/A | N/A | N/A | N/A | Yes | None | | | | ExCo Minutes |
| | | 41 | | Date adopted | N/A | N/A | N/A | N/A | 29-Jul-10 | | | | | |
| | | 42 | Reliable and credible IDP | Yes/No | N/A | N/A | N/A | N/A | Yes | None | | | | Council Minutes |
| Administration | Financial Viability and Financial Management | 43 | Timeous submission of Annual Financial Statements | Yes/No | N/A | N/A | N/A | N/A | Yes | None | | | | |
| | | 44 | | Date submitted | N/A | N/A | N/A | N/A | 31-Aug-11 | | | | | |
| | | 45 | Timeous submission of Annual Report | Yes/No | N/A | N/A | N/A | N/A | Yes | Late submission of information required in the report | Quarterly reports to be prepared timeously | None | | e-mail sent to CoGTA |
| | | 46 | | Date submitted | N/A | N/A | N/A | N/A | 09-Sep-11 | | | | | |
| | 47 | Updated and credible Asset Register | Yes/No | N/A | N/A | N/A | N/A | Yes | None | | | | Asset Register | |
| | 48 | Functional OPMS | Yes/No | N/A | N/A | N/A | N/A | Yes | PMS to be cascaded to staff below senior managers | None | None | | PMS Reports | |
| | 49 | Updated and credible Indigent Register | Yes/No | N/A | N/A | N/A | N/A | No | None existence of a credible register | Field work to be done conducting verification of registered individuals | None | | | |
| Reduced Corruption | Financial Viability and Financial Management | 50 | Financial controls applied to ensure usage is monitored/ limited to Indigent Policy | Yes/No | N/A | N/A | N/A | N/A | No | None existence of a credible register | | | | |
| | | 51 | Functional Supply Chain Management system | Yes/No | N/A | N/A | N/A | N/A | Yes | None | | | | SCM Reports |
| | | 52 | Anti-corruption strategy implemented by target date | Yes/No | N/A | N/A | N/A | N/A | No | Strategy still to be developed | Target date is 31 Dec 2011 | None | | OPMS |
| | | 53 | | Date implemented | N/A | N/A | N/A | N/A | N/A | | | | | |
| Labour Relations | Municipal Transformation and Institutional Development | 54 | Percentage of critical posts filled | % of critical posts (Number of critical posts filled/ Total number of critical posts on the organogram) x 100 | N/A | N/A | N/A | 50% | 17.00% | 2 departments are headed by individuals in acting capacity | CFOs post due for interviews. HOD - Community Services still need to be advertised | None | | HR reports |
| | | 55 | Percentage of critical posts with signed performance agreements | % of signed performance agreements (Total number of signed performance agreements for critical posts/ Total number of critical posts on the organogram) x 100 | N/A | N/A | N/A | 100% | 67.00% | 2 departments are headed by individuals in acting capacity and are not subjected to performance agreements | CFOs post due for interviews. HOD - Community Services still need to be advertised | None | | HR reports |
| | | 56 | Acceptable level of functionality of Local Labour Forum | Yes/No | N/A | N/A | N/A | N/A | No | | | | | |
| | | 57 | | No. of meetings held | N/A | N/A | N/A | N/A | None | | | | | |
| | | 58 | Budget Spent on Workplace Skills Plan | % Spent (Actual amount spent on WSP/ Budgeted amount for WSP) x 100 | N/A | N/A | N/A | 100% | 80.00% | Poor cash flow hampered total expenditure allocated for skills development | | None | | Budget |
| | | 59 | No. - Municipal Manager | | | | | 1 | 1 | None | None | None | | Organogram |
| | | 60 | Number of people from employment equity target groups employed in the three highest levels of management | No. - S57 Managers | | | | 6 | 4 | 2 acting senior managers | CFOs post due for interviews. HOD - Community Services still need to be advertised | None | | Organogram |
| | | 61 | | No. - S56 Managers | N/A | N/A | N/A | N/A | 0 | | | | | |
| 62 | Number of suspensions in the three highest levels of management | No. - Municipal Manager | N/A | N/A | N/A | N/A | 0 | | | | | | | |
| 63 | | No. - S57 Managers | N/A | N/A | N/A | N/A | 0 | | | | | | | |
| 64 | | No. - S56 Managers | N/A | N/A | N/A | N/A | 0 | | | | | | | |

DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

ANNUAL MUNICIPAL PERFORMANCE REPORT

| | | | | | | |
|--|--------------------------|---|---|---|---|------------------------------------|
| NAME OF MUNICIPALITY: UMKHANYAKUDE DISTRICT MUNICIPALITY | SELECT THE QUARTER: | 1 | 2 | 3 | 4 | FINANCIAL YEAR ENDED: 30 JUNE 2011 |
| | TICK THE APPLICABLE BOX: | ✓ | ✓ | ✓ | ✓ | |

| Priority Area | National KPA | No. | Indicators | Unit of Measure/ Calculation | Annual | | | 2010/2011 | | Blockages | Corrective Measures | Support needed in terms of unblocking | Source of Information |
|---|---|-----|--|---|--------|----------|---------|-----------|--|--|---|---|------------------------|
| | | | | | Demand | Baseline | Backlog | Target | Progress Achieved | | | | |
| Public Participation | Good Governance, Community Participation and Ward Committee Systems | 65 | % of functional Ward Committees in terms of the new model | % Achieved (Number of functional Ward Committees/ Total Number of Ward Committees) x 100 | N/A | N/A | N/A | N/A | N/A | | | | |
| | | 66 | Number of Ward Committee management meetings held and percentage attendance by members | No. of meetings | N/A | N/A | N/A | N/A | N/A | | | | |
| | | 67 | | % attendance achieved | N/A | N/A | N/A | N/A | N/A | | | | |
| | | 68 | Number of community meetings held | No. of meetings | N/A | N/A | N/A | 5 | 4 | | | | IDP Process Plan |
| Enabling environment for growth and development | Local Economic Development | 69 | No. of jobs created through Capital Works Plan | No. of jobs | N/A | N/A | N/A | 200 | 200 | | | | MIG Business Plan |
| | | 70 | Number of Wards per municipality implementing the Capital Works Plan | No. of Wards | N/A | N/A | N/A | N/A | N/A | | | | |
| | | 71 | Number of Co-operatives established and still functional in Wards where CWP is implemented | No. of Co-operatives | N/A | N/A | N/A | N/A | 0 | | | | |
| | | 72 | LED Strategy adopted | Yes/No | N/A | N/A | N/A | N/A | No | | | | |
| | | 73 | | Date adopted | N/A | N/A | N/A | N/A | N/A | | | | |
| | | 74 | LED Strategy and plans are aligned with PGDS | Yes/No | | | | | No | | | | |
| | | 75 | Jobs created through the Municipality's LED activities | No of jobs | | | | 100 | 32 (20 at Mkhuze Regional Airport and 12 at the Business Support Centres) | Poor cash flow hampered the rolling out of LED initiatives | Collaboration with the National and Provincial government LED Initiatives | Collaboration with the National and Provincial government LED Initiatives | SED Report - 2010/2011 |

INDICATORS:

REGULATED

Municipal Turnaround Strategy

NAME OF OFFICIAL: _____

SIGNATURE OF OFFICIAL: _____

DESIGNATION OF OFFICIAL: _____

DATE: _____

ANNEXURE 2: AUDITED FINANCIAL STATEMENTS

REPORT OF THE AUDITOR-GENERAL TO THE KWA-ZULU NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMKHANYAKUDE DISTRICT MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated and separate financial statements of the uMkhanyakude District Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information as set out on pages xx to xx.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, (Act No.1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these consolidated and separate financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for adverse opinion

Property, plant and equipment

7. The SA Standard of GRAP 17, *Property, plant and equipment* (GRAP 17), states that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses or at a revalued amount less accumulated depreciation and accumulated impairment losses. As indicated in note 7 to the financial statements, no depreciation is provided for on property, plant and equipment. In addition the municipality did not assess assets for impairment indicators; review the residual values and the useful lives of assets at year end in accordance with GRAP 17 as evidenced by assets being included in the financial statements at a zero net carrying amount whilst still being in use, thus impacting on the valuation of these assets. There was also no indication that management conducted a revaluation on land and buildings. Furthermore, infrastructure assets were disclosed in components at a zero value. I was unable to quantify the effect of these misstatements.
8. An amount of R280, 183 million included in the property, plant and equipment balance disclosed in note 7 to the financial statements could not be reconciled to the asset register. Sufficient and appropriate documentation could not be provided to support R181, 756 million disclosed as asset disposals in the financial statements. Furthermore, assets identified during the physical verification procedures could not be reconciled to the financial statements. I was unable to quantify the effect of this misstatement due to lack of supporting documentation.

Accumulated Surplus

Prior year qualification item

9. The municipality could not provide sufficient appropriate audit evidence to support prior years' expenses that affected the accumulated surplus of R3, 225 million. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that prior year's expenses of R3, 225 million had been properly recorded. Consequently I did not obtain sufficient appropriate evidence to satisfy myself as to completeness and valuation of amount disclosed as the accumulated surplus.
10. The municipality could not provide sufficient appropriate evidence to support automatic transfers incorrectly processed on the statement of changes in net assets totaling R1, 455 million in the prior year. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance on these automatic transfers. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of the amount disclosed as accumulated surplus.

Unsupported adjustment processed

11. A transfer of R3, 004 million was credited to accumulated surplus for which no audit evidence was made available to support the transaction. The comparative amounts in the statement of changes in net assets were omitted. As a result the financial statements do not meet the requirements of SA Standards of GRAP 1 *Presentation of Financial Statements* relating to the presentation of comparative information. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that accumulated surplus was accurately recorded.

Electricity Sales

Prior year qualification item

12. During the prior year the municipality could not provide sufficient appropriate audit evidence to support a journal entry of R1, 909 million relating to the reversal on electricity sales. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the reversal was properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence and accuracy of the electric sales reversal of R1, 909 million.

Unspent Conditional grants

Debit amounts included in Municipal Infrastructure Grant balances

13. The municipality could not provide sufficient appropriate audit evidence to support debit balances for the Municipal Infrastructure Grants amounting to R5, 415 million that is included in Note 13. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that unspent conditional grants had been accurately recorded.

Trade and other receivables

14. The municipality could not provide sufficient appropriate evidence supporting the existence of debtors totaling R5, 727 million as disclosed in note 2 to the financial statements. It was also noted that R713, 000 of the debtors total relates to prepayments from debtors and is a negative amount that should be classified as creditors. As a result trade and other receivables is misstated. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that trade debtors disclosed exist and are accurately recorded.

Provision for bad debts

15. An impairment loss has not been recognised in accordance with South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133), *Financial instruments: Recognition and measurement*. The prior year allowance for doubtful debts was not adjusted to account for current year irrecoverable and long outstanding debtors balances. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and accuracy of provision for bad debts amounting to R94, 073 million as disclosed in note 2 to the annual financial statements.

Trade and other payables

16. Trade and other payables of R 51,486 million as disclosed in note 9 to the financial statements does not agree to the underlying accounting records. The municipality did not reconcile the difference of R2, 453 million between the financial statements and the underlying accounting records. Furthermore, an adjustment of R5, 211 million was made to trade and other payables for which no supporting audit evidence was made available. In addition the municipality could not provide sufficient appropriate audit evidence to support credit balances for trade creditors amounting to R11, 772 million that is included in note 9. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that trade creditors exist and had been accurately recorded. Consequently I could not satisfy myself as to the existence and valuation of the trade and other payables balance in the financial statements.

Investment Property

17. SA Standard of GRAP 16, *Investment property*, requires property held to earn rentals or for capital appreciation to be recognised as investment property. Rentals on the lease of property amounting to R167 446 had been earned for the year; however, the related properties had been included as property, plant and equipment. This resulted in investment property being understated and property, plant and equipment being overstated. The amount cannot be quantified due to lack of information provided. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of investment property.

Bulk purchases

18. Bulk purchases as disclosed in note 26 to the financial statements does not include an amount of R3, 242 million that was not recorded in the financial systems of the municipality. This has resulted in bulk purchases and trade payables being understated by R3, 242 million.

Grant expenditure

19. An adjustment of R2, 101 million was debited to grant expenditure for which no audit evidence was made available. This resulted in grant expenditure of R22, 929 million as disclosed in note 28 to the financial statements being overstated and accumulated surplus being understated by R2, 101 million. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all grant expenditure was properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of grant expenditure.

General expenditure

20. General expenditure of R14, 634 million as disclosed in note 29 to the financial statements does not include an amount of R20, 828 million which was incorrectly classified as grant expenditure in the financial statements. The reason for this is still being investigated and therefore no explanations were provided for audit purposes.

Interest earned

21. A difference of R1, 324 million exists between interest earned disclosed in note 19 to the financial statements and the investment register. The municipality did not reconcile this difference between the financial statements and the underlying accounting records. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that interest earned had been properly recorded. Interest earned is therefore overstated by R1, 324 million.

Irregular expenditure

22. Payments amounting to R3, 236 million were made in contravention of the requirements of the municipal supply chain management regulations. This has resulted in irregular expenditure being incurred and has not been disclosed in the financial statements. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure.

Fruitless and wasteful expenditure

23. The municipality incurred fruitless and wasteful expenditure of R1, 086 million due to the following: Interest on late payment of accounts (R1, 036 million) and Vehicle damages (R50, 638). This was not disclosed in note 30.2 of the financial statements.

Commitments

24. Commitments amounting to R58, 415 million has not been disclosed in note 38 to the financial statements. This results in commitments being understated. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments.

Cash Flow Statement

25. Presentation of a cash flow statement, summarising the municipality's operating, investing and financing activities, is required by SA Standard of GRAP 2, *Cash flow statements*. The cash flow statement included in the financial statements of the municipality did not contain any amounts to be audited. The municipality therefore did not comply with the requirements of paragraph 8 of GRAP 1, *Presentation of Financial Statements* and GRAP 2.

Adverse audit opinion

26. In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, these financial statements do not present fairly the consolidated and separate financial position of the uMkhanyakude District Municipality and its subsidiary as at 30 June 2011 and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DORA.

Additional matters

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

Material inconsistencies in other information included in the annual report

28. The municipality did not make available the draft annual report that will include the consolidated and separate financial statements and performance on predetermined objectives. As a result it could not be determined if there are any inconsistencies in the related information.

Unaudited supplementary schedules

29. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

30. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

31. The following criterion is relevant to the finding below:

- Performance against predetermined objectives is reported using the National Treasury Guidelines.

The following audit finding relates to the above criterion:

32. Measures taken to improve performance were not provided in the performance report, as required in terms of section 46 (1) (c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). In total 54% of the reported targets where improvements are required was not explained.

Usefulness of information

33. The following criteria are relevant to the findings below:

- **Measurability:** Indicators are well defined and verifiable, and targets are specific, measurable and time bound.
- **Relevance:** A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets?

- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents.

The following audit findings relate to the above criteria:

34. Reported performance against predetermined indicators is not consistent with the approved integrated development plan. In total 78% of all reported targets specified in the annual performance report were not included in the Integrated Development Plan (IDP) submitted for audit purposes.
35. Additional indicators were reported on as opposed to those approved in the IDP. These additional objectives, indicators and targets were not included in the approved or adjusted budgets.
36. For the objectives, basic service delivery and infrastructure development and financial viability and management, 26% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently
37. For the objectives, basic service delivery and infrastructure development and financial viability and management, valid performance management processes and systems that produce actual performance against the planned indicators do not exist for 100% of the indicators.

Reliability of information

38. The following criteria are relevant to the findings below:

- Validity: Actual reported performance occurred and pertains to the entity.
- Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report.

The following audit finding relates to the above criteria:

39. The municipality did not provide supporting documentation to audit the reliability of the information recorded in the annual performance report.

Compliance with laws and regulations

Annual financial statements, performance and annual reports

40. The municipality did not comply with section 122(1) (a) of the MFMA as they did not produce a set of financial statements that fairly presented the state of affairs of the municipality. The financial statements that were submitted for audit were subjected to adjustments due to material misstatements identified during the audit.

Strategic Planning and Performance Management

41. In contravention of section 53(1) (c) (ii) of MFMA, the service delivery and budget implementation plan was not approved by the Mayor within 28 days of the approval of the budget.
42. The annual performance report and internal management reports did not accurately reflect the progress achieved for all of the targets set for the year as required by Section 46(1).
43. Contrary to the Local Government: Municipal Planning and Performance Management Regulation 15(3), the municipality did not make its key performance indicators known to the general public.

Procurement and Contract Management

44. In contravention of the requirements of section 62(1) (e) of the MFMA, it was noted that there are no disciplinary policies and procedures for contravention of the Supply Chain Management Policy.
45. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
46. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
47. Awards were made to bidders who did not declare whether they or any person connected with them is employed by the state or if they were a legal person whether they have a relationship with persons/a person involved in the evaluation and/or adjudication of the bids as per the requirements of SCM Regulation 13(c).
48. There was no evidence that deviations from SCM regulations amounting to R150 295 had been reported to council or that they were disclosed in the Annual Financial Statements, in contravention of SCM Regulation 36(2).

Internal Audit

49. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that they did not prepare a risk-based audit plan and an internal audit programme for the financial year under review. In addition all internal audit reports were submitted in draft format.

The municipal entity did not have an internal audit unit in place, as required by section 165(1) of the MFMA.

Audit Committee

50. Contrary to the requirements of section 166 of the MFMA, the municipality did not have an audit committee in operation for the full financial year as the members were only appointed in the last two months before financial year end. The municipal entity had an audit committee that did not meet for at least four times in the year.

Expenditure Management

51. The accounting officer did not take reasonable steps to prevent or detect irregular expenditure, as required by section 62(1) (d) of the MFMA.
52. The municipality failed to meet its financial commitments to an organ of state, in terms of Section 37(1) (c), as no payments were made during the year under review.

Asset Management

53. Contrary to the requirements of section 96 of the MSA, the municipality has not implemented a debt collection policy and has not taken steps to collect the monies due by the consumers which have resulted in consumer accounts receivables increasing by R27 823 million compared to the prior year.
54. Distributions losses are not monitored on a monthly basis as required by section 62(1) (d) of the MFMA. As a result the municipality has not reported on such distribution losses.

INTERNAL CONTROL

55. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for adverse opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

56. The accounting officer does not exercise oversight responsibility over financial and performance reporting and compliance with related internal control. Furthermore, the accounting officer did not develop and monitor the implementation of a corrective action plan to address the prior year internal control deficiencies.

Financial and performance management

57. Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting. Monthly and annual reconciliations and reviews of information are not done timely. The financial statements and performance information were subject to material amendments resulting from the audit. There was a lack of review and monitoring of compliance with applicable laws and regulations.

Governance

58. The accounting officer did not ensure that a risk assessment was conducted. In addition the accounting officer failed to develop and implement a fraud prevention plan. The audit committee and internal auditors did not fulfil their responsibilities as set out in legislation and in accordance with accepted best practice.

Pietermaritzburg

22 December 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

| UMKHANYAKUDE DISTRICT MUNICIPALITY | | | |
|--|------|----------------------|----------------------|
| STATEMENT OF FINANCIAL POSITION | | | |
| as at 30 June 2011 | | | |
| | Note | 2011 R | 2010 R |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 1 | 5,297,874 | 8,768,881 |
| Trade and other receivables from exchange transactions | 2 | 31,887,959 | 4,065,202 |
| Other receivables from non-exchange transactions | 2 | 6,177,399 | 1,196,614 |
| Inventories | 4 | 61,814 | 350,365 |
| Investments | 5 | 122,601,745 | 11,192,933 |
| VAT receivable | 3 | - | 246,463 |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 1,121,216,614 | 1,076,497,413 |
| Intangible assets | 8 | 56,939 | 43,410 |
| Investment in municipal entity | | 100 | 100 |
| Correction of error (illustrative purposes only) | | | |
| Total assets | | 1,287,300,443 | 1,102,361,381 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables from exchange transactions | 9 | 51,486,177 | 59,320,973 |
| Consumer deposits | 10 | 788,932 | 712,741 |
| VAT payable | 11 | 2,533,741 | - |
| Current provisions | 12 | 4,413,886 | 2,877,512 |
| Bank overdraft | 1 | - | 3,450,306 |
| Current portion of borrowings | 14 | - | 2,097,707 |
| Current portion of finance lease liability | 15 | 1,066,680 | 1,066,680 |
| Non-current liabilities | | | |
| Non-current unspent conditional grants and receipts | 13 | 127,542,691 | 47,517,877 |
| Non-current borrowings | 14 | 12,229,793 | 10,497,761 |
| Non-current finance lease liability | 15 | 287,064 | 287,064 |
| Investment in municipal entity - LOAN | | 100 | 100 |
| Total liabilities | | 200,349,065 | 127,828,721 |
| Net assets | | 1,086,951,378 | 974,532,660 |
| NET ASSETS | | | |
| Reserves | | | |
| Accumulated surplus / (deficit) | | 1,086,951,378 | 974,532,660 |
| Total net assets | | 1,086,951,378 | 974,532,660 |

UMKHANYAKUDE DISTRICT MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE

for the year ending 30 June 2011

| | Note | 2011 R | 2010 R |
|---|------|--------------------|--------------------|
| Revenue | | | |
| Property rates | 16 | 963,145 | 744,448 |
| Service charges | 17 | 43,381,630 | 31,617,987 |
| Rental of facilities and equipment | 18 | 167,446 | 70,865 |
| Interest earned - external investments | 19 | 4,797,056 | 809,458 |
| Government grants and subsidies | 20 | 188,982,151 | 197,791,557 |
| Other income | 21 | 331,912 | 632,579 |
| Total revenue | | 238,623,340 | 231,666,894 |
| Expenses | | | |
| Employee related costs | 22 | 55,085,615 | 49,257,671 |
| Remuneration of councillors | 23 | 3,516,213 | 2,470,855 |
| Provision for doubtful debts | | | 37,098,827 |
| Depreciation and amortisation expense | 24 | | 47,998,606 |
| Inventory write off | | | 634,354 |
| Repairs and maintenance | | 1,149,327 | 5,095,892 |
| Finance costs | 25 | 1,070,281 | 2,009,233 |
| Bulk purchases | 26 | 28,465,911 | 52,227,457 |
| Contracted services | 27 | 2,831,759 | 120,249 |
| Grant expenditure | 28 | 22,928,943 | 15,502,763 |
| General expenses | 29 | 14,634,325 | 27,566,748 |
| Total expenses | | 129,682,374 | 239,982,655 |
| Gain / (loss) on sale of assets | 30 | 474,003 | |
| Surplus / (deficit) for the period | | 109,414,969 | (8,315,761) |

UMKHANYAKUDE DISTRICT MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
for the year ended 30 June 2011

| | | | | | | | Accumulated Surplus/(Deficit) | Total: Net Assets |
|---|--|--|--|--|--|--|----------------------------------|----------------------|
| | | | | | | | R | R |
| Note | | | | | | | | |
| Balance at 30 June 2010 | | | | | | | 974,532,660 | 974,532,660 |
| Net gains and losses not recognised in the statement of financial performance | | | | | | | | |
| Transfers to / from accumulated surplus/(deficit) | | | | | | | 3,003,749 | 3,003,749 |
| Surplus / (deficit) for the period | | | | | | | 109,414,969 | 109,414,969 |
| Balance at 30 June 2011 | | | | | | | 1,086,951,378 | 1,086,951,378 |
| | | | | | | | | |
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| | | | | | | | | |

| UMKHANYAKUDE DISTRICT MUNICIPALITY | | | | | | |
|---|--|--|--|-------------|---------------------|---------------------|
| CASH FLOW STATEMENT | | | | | | |
| for the year ended 30 June 2011 | | | | | | |
| | | | | Note | 2011 | 2010 |
| | | | | | R | R |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Receipts from consumers and government | | | | | - | 255,885,491 |
| Taxation | | | | | | |
| Sales of goods and services | | | | | | |
| Grants | | | | | | |
| Interest received | | | | | | |
| Other receipts | | | | | | |
| Cash paid to suppliers and employees | | | | | - | 171,058,855 |
| Employee costs | | | | | | |
| Suppliers | | | | | | |
| Interest paid | | | | | | |
| Other payments | | | | | | |
| Cash generated from operating activities | | | | 33 | - | 84,826,636 |
| Interest Income | | | | | | 809,458 |
| Finance costs | | | | | | 2,009,233 |
| Net cash flows from operating activities | | | | | | 83,626,861 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Purchase of fixed assets (PPE) | | | | | (44,705,672) | (76,834,142) |
| Proceeds from sale of fixed assets | | | | | | |
| Proceeds from sale of investments | | | | | | |
| Purchase of intangibles | | | | | | |
| Decrease/(Increase) in Loans and receivables | | | | | | 255,071 |
| Net cash flows from investing activities | | | | | (44,705,672) | (76,579,071) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Movement in long term liabilities | | | | | | (4,127,568) |
| Movement in finance lease obligation | | | | | | (1,086,655) |
| Movement in current portion of long term liabilities | | | | | | 1,347,870 |
| Movement in current portion of finance lease liabilities | | | | | | (361,702) |
| Movement in consumer deposits | | | | | | 106,895 |
| Proceeds from borrowings | | | | | | |
| Repayment of borrowings | | | | | | |
| Proceeds from finance lease liability | | | | | | |
| Repayment of finance lease liability | | | | | | |
| Net cash flows from financing activities | | | | | - | (4,121,160) |
| Net increase / (decrease) in net cash and cash equivalents | | | | | (44,705,672) | 2,926,630 |
| Net cash and cash equivalents at beginning of period | | | | | 16,511,458 | 13,584,828 |
| Net cash and cash equivalents at end of period | | | | 34 | (28,194,214) | 16,511,458 |

UMKHANYAKUDE DISTRICT MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

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

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET

1.5 EFFECTIVE

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

GRAP 8 Interest in Joint Ventures - issued August 2006

GRAP 18 Segment Reporting - issued March 2005

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008

GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007

GRAP 103 Heritage Assets - issued July 2008

| | | | |
|--|--|--|------------------------------------|
| 2.3 SUBSEQUENT MEASUREMENT - COST MODEL | | | |
| | Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. | | |
| | Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset. | | |
| 2.4 DEPRECIATION AND IMPAIRMENT | | | |
| | Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets <i>[or state other method used, e.g. production-unit- or diminishing balance method]</i> . Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives: | | |
| | Infrastructure | | Other |
| | Roads and Paving | | Buildings |
| | Pedestrian Malls | | Specialist vehicles |
| | Electricity | | Other vehicles |
| | Water | | Office equipment |
| | Sewerage | | Furniture and fittings |
| | | | Watercraft |
| | Community | | Bins and containers |
| | Buildings | | Specialised plant and equipment |
| | Recreational Facilities | | Other items of plant and equipment |
| | Security | | Landfill sites |
| | Halls | | Quarries |
| | Libraries | | Emergency equipment |
| | Parks and gardens | | Computer equipment |
| | Other assets | | Other |
| | | | Other |
| | Heritage assets | | Other |
| | Buildings | | Other |
| | Paintings and artifacts | | |
| | Finance lease assets | | |
| | Office equipment | | |
| | Other assets | | |
| | The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance. | | |
| | The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. | | |
| 2.5 DERECOGNITION | | | |
| | Items of Property, plant and equipment 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 item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance. | | |

| | | | | | |
|----------|---|--|--|--|--|
| 3 | INTANGIBLE ASSETS | | | | |
| | 3.1 INITIAL RECOGNITION | | | | |
| | An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. 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 never capitalised, while development expenditure is only capitalised to the extent that: | | | | |
| | <ul style="list-style-type: none"> • the municipality intends to complete the intangible asset for use or sale; • it is technically feasible to complete the intangible asset; • the municipality has the resources to complete the project; and • it is probable that the municipality will receive future economic benefits or service potential. | | | | |
| | Intangible assets are initially recognised at cost. | | | | |
| | Where an intangible 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. | | | | |
| | Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up. | | | | |
| | 3.2 SUBSEQUENT MEASUREMENT - COST MODEL | | | | |
| | Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test. | | | | |
| | 3.3 AMORTISATION AND IMPAIRMENT | | | | |
| | Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives: | | | | |
| | Computer software | | | | |
| | The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance. | | | | |
| | The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. | | | | |
| | 3.4 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 sales proceeds and the carrying value and is recognised in the Statement of Financial Performance. | | | | |

| | | | | | |
|----------|--|--|---|--|--|
| 4 | INVESTMENT PROPERTY | | | | |
| | 4.1 INITIAL RECOGNITION | | | | |
| | | Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. | | | |
| | | At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. | | | |
| | | The cost of self-constructed investment property is the cost at date of completion. | | | |
| | 4.2 SUBSEQUENT MEASUREMENT - COST MODEL | | | | |
| | | Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. | | | |
| | | Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives: | | | |
| | | Investment property | | | |
| | 4.2 SUBSEQUENT MEASUREMENT - FAIR VALUE MODEL | | | | |
| | | Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises. | | | |
| 5 | BIOLOGICAL ASSETS | | | | |
| | 5.1 INITIAL RECOGNITION | | | | |
| | | A biological asset or agricultural produce is recognised when, and only when: | | | |
| | | - the municipality controls the asset as a result of past events; | | | |
| | | - it is probable that future economic benefits associated with the asset will flow to the municipality; | | | |
| | | - and the fair value or cost of the asset can be measured reliably. | | | |
| | 5.2 SUBSEQUENT MEASUREMENT | | | | |
| | | Biological assets are measured at their fair value less estimated point-of-sale costs. | | | |
| | | The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit. | | | |
| | | The fair value of milk is determined based on market prices in the local area. | | | |
| | | The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees. | | | |
| | | A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is included in profit or loss for the period in which it arises. | | | |
| | | Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate is used to determine fair value. | | | |
| | | An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs is recognised as income when the government grant becomes receivable. | | | |
| | | Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses. | | | |
| | | Depreciation is provided on biological assets where fair value cannot be determined, to write down the cost, less residual value. The annual depreciation rates are based on the following estimated average asset lives: | | | |
| | Biological assets | | % | | |
| | Trees in plantation | | | | |
| | Maize | | | | |
| | Wheat | | | | |
| | Sheep | | | | |
| | Pigs | | | | |
| | Dairy Cattle | | | | |
| | Other Assets | | | | |

| | | | | | |
|----------|--|--|--|--|--|
| 6 | NON-CURRENT ASSETS HELD FOR SALE | | | | |
| | 6.1 INITIAL RECOGNITION | | | | |
| | Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. | | | | |
| | 6.2 SUBSEQUENT MEASUREMENT | | | | |
| | Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell. | | | | |
| | A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale. | | | | |
| | Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit. | | | | |
| 7 | INVENTORIES | | | | |
| | 7.1 INITIAL RECOGNITION | | | | |
| | Inventories comprise current assets held for sale, 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. | | | | |
| | 7.2 SUBSEQUENT MEASUREMENT | | | | |
| | Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. 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. | | | | |
| | In general, the basis of allocating cost to inventory items is the first-in, first-out method OR the weighted average method. | | | | |
| 8 | FINANCIAL INSTRUMENTS | | | | |
| | 8.1 INITIAL RECOGNITION | | | | |
| | Financial instruments are initially recognised at fair value. | | | | |
| | 8.2 SUBSEQUENT MEASUREMENT | | | | |
| | Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39. | | | | |
| | 8.2.1 INVESTMENTS | | | | |
| | Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments 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. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance. | | | | |

| | | |
|--|---|--|
| | <p>8.2.2 TRADE AND OTHER RECEIVABLES</p> <p>Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.</p> | |
| | <p>An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.</p> | |
| | <p>8.2.3 TRADE PAYABLES AND BORROWINGS</p> <p>Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.</p> | |
| | <p>8.2.4 CASH AND CASH EQUIVALENTS</p> <p>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, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.</p> | |
| | <p>Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.</p> | |
| | <p>9 INVESTMENTS IN ASSOCIATES</p> | |
| | <p>An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgement in the context of all available information to determine if it has significant influence over an investee.</p> | |
| | <p>The equity method involves recognising the investment initially at cost, then adjusting for any change in the investor's share of net assets of the associate since it acquired it. A single line-item in the Statement of Financial Performance presents the investor's share of the associate's surplus or deficit for the year.</p> | |
| | <p>The municipality commences accounting for an investment in an associate from the date that significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures or financial instruments depending on the nature of the retained investment.</p> | |
| | <p>The municipality uses the most recent available financial statements of the associate in applying the equity method. Where the reporting periods of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the municipality.</p> | |
| | <p>10 UNAUTHORISED EXPENDITURE</p> | |
| | <p>Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.</p> | |

| | | | | | |
|-----------|---|---|--|--|--|
| 11 | 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 supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. | | | |
| 12 | FRUITLESS AND WASTEFUL EXPENDITURE | | | | |
| | | Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. | | | |
| 13 | 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 will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land). | | | |
| | | The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable. | | | |
| | | 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. | | | |
| | | A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met: (a) The municipality has a detailed formal plan for the restructuring identifying at least: - the business or part of a business concerned; - the principal locations affected; - the location, function, and approximate number of employees who will be compensated for terminating their services; - the expenditures that will be undertaken; and - when the plan will be implemented; and (b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. | | | |
| 14 | LEASES | | | | |
| | 14.1 MUNICIPALITY AS LESSEE | | | | |
| | | Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. 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. | | | |
| | | Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease 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. | | | |
| | | Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease. | | | |

| | | | | |
|--|--|--|--|--|
| 14.2 MUNICIPALITY AS LESSOR | | | | |
| | Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables. | | | |
| | Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. | | | |
| 15 REVENUE | | | | |
| 15.1 REVENUE FROM EXCHANGE TRANSACTIONS | | | | |
| | 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. | | | |
| | Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when 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. The estimates of consumption between meter readings are based on..... | | | |
| | Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. | | | |
| | Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property. | | | |
| | Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly. | | | |
| | Interest revenue is recognised on a time proportion basis. | | | |
| | Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement. | | | |
| | Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend. | | | |
| | Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits. | | | |
| | Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer. | | | |
| | Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services. | | | |

| | | |
|--|---|--|
| | 15.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS | |
| | 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. | |
| | 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. | |
| | Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected. | |
| | Revenue from public contributions and donations 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 qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised. | |
| | Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality. | |
| | 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. | |
| | | |
| | 15.3 GRANTS, TRANSFERS AND DONATIONS | |
| | Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised. | |
| | | |
| | 16 BORROWING COSTS | |
| | Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred. | |
| | | |
| | 17 RETIREMENT BENEFITS | |
| | The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans. | |
| | Insert defined contribution plan information here | |
| | | |
| | Insert defined benefit plan information here. | |
| | | |

| | |
|-----------|---|
| 18 | CONSTRUCTION CONTRACTS AND RECEIVABLES |
| | Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by <i>[the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs OR surveys of work done OR completion of a physical proportion of the contract work]</i> . |
| | Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. |
| | When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred. |
| | When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. |
| 19 | IMPAIRMENT OF ASSETS |
| | The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset. |
| | Irrespective of whether there is any indication of impairment, the municipality also: |
| | - tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period. |
| | 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 cash-generating unit to which the asset belongs is determined. |
| | The recoverable service 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. |
| | 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 surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease. |
| | An impairment loss is recognised for 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 as follows: |
| | - to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit. |
| | A 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 surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase. |

NOTES TO THE FINANCIAL STATEMENTS

UMKHANYAKUDE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

| | Note | 2011 R | 2010 R |
|---|------|-------------|-------------|
| 1 CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents consist of the following: | | | |
| Cash on hand | | 1,500 | 1,500 |
| Cash at bank | | 5,296,374 | 5,317,055 |
| Total bank overdraft | | | (3,450,306) |
| Call deposits | | | |
| | | 5,297,874 | 1,868,249 |
| The Municipality has the following bank accounts: - | | | |
| ABSA bank - Account number 40-5310-7423 | | | |
| Cash book balance at the beginning of the year | | 8,127,014 | 11,593,189 |
| Cash book balance at the end of the year | | 2,935,073 | 8,127,014 |
| Bank statement balance at the beginning of the year | | 8,119,855 | 11,593,189 |
| Bank statement balance at the end of the year | | 2,935,073 | 8,127,014 |
| FIRST NATIONAL 62026865321 | | | |
| Cash book balance at the beginning of the year | | (3,457,465) | 193,605 |
| Cash book balance at the end of the year | | 1,418,710 | (3,457,465) |
| Bank statement balance at the beginning of the year | | 5,670,965 | 193,605 |
| Bank statement balance at the end of the year | | 6,766,876 | 5,670,965 |
| FIRST NATIONAL 62092993809 | | | |
| Cash book balance at the beginning of the year | | 497,182 | 680,962 |
| Cash book balance at the end of the year | | 500,521 | 497,182 |
| Bank statement balance at the beginning of the year | | | 680,962 |
| Bank statement balance at the end of the year | | | 497,182 |
| FIRST NATIONAL 62027696478 | | | |
| Cash book balance at the beginning of the year | | 82,896 | 83,381 |
| Cash book balance at the end of the year | | 81,970 | 82,896 |
| Bank statement balance at the beginning of the year | | 82,896 | 83,381 |
| Bank statement balance at the end of the year | | 81,970 | 82,896 |
| ITHALA 23247671 | | | |
| Cash book balance at the beginning of the year | | 40,913 | 266,745 |
| Cash book balance at the end of the year | | 246,933 | 40,913 |
| Bank statement balance at the beginning of the year | | 40,913 | 266,745 |
| Bank statement balance at the end of the year | | 246,933 | 40,913 |
| FIRST NATIONAL 62263733258 | | | |
| Cash book balance at the beginning of the year | | 26,474 | - |
| Cash book balance at the end of the year | | 27,010 | 26,474 |
| Bank statement balance at the beginning of the year | | 26,474 | |
| Bank statement balance at the end of the year | | 27,010 | 26,474 |
| CASH ON HAND | | | |
| Cash book balance at the beginning of the year | | 41 | - |
| Cash book balance at the end of the year | | 86,158 | 41 |
| Bank statement balance at the beginning of the year | | | |
| Bank statement balance at the end of the year | | | |
| Cash book balance at beginning of year | | 5,317,055 | |
| Cash book balance at end of year | | 5,296,374 | 5,317,055 |
| Bank statement balance at beginning of year | | - | |
| Bank statement balance at end of year | | | |
| Cash on hand | | 1,500 | 1,500 |
| Total cash and cash equivalents | | 5,297,874 | 5,318,555 |
| Total bank overdraft | | | - |

| 2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS | Gross Balances | Provision for Doubtful Debts | Net Balance |
|---|-----------------------|-------------------------------------|---|
| | R | R | R |
| Trade receivables | | | |
| as at 30 June 2011 | | | |
| Service debtors | | | |
| Sewerage | 6,055,526 | (5,344,973) | 710,553 |
| Electricity | 3,230,547 | (2,000,137) | 1,230,410 |
| Water | 107,331,019 | (78,736,609) | 28,594,410 |
| Rates | 1,946,656 | (594,070) | 1,352,586 |
| Total | 118,563,748 | (86,675,789) | 31,887,959 |
| Other receivables - refer note 6 for details | 13,575,459 | (7,398,060) | 6,177,399 |
| Other receivables | 13,575,459 | (7,398,060) | 6,177,399 |
| Total Trade and other receivables | 132,139,206 | (94,073,849) | 38,065,357 |
| as at 30 June 2010 | | | |
| Service debtors | | | |
| Sewerage | 5,146,566 | (5,344,973) | (198,407) |
| Electricity | 2,222,541 | (2,000,137) | 222,404 |
| Water | 82,523,214 | (78,736,609) | 3,786,605 |
| Rates | 848,670 | (594,070) | 254,600 |
| Total | 90,740,991 | (86,675,789) | 4,065,202 |
| Other receivables - refer note 6 for details | 14,417,391 | (4,983,321) | 9,434,070 |
| Other receivables | 14,417,391 | (4,983,321) | 9,434,070 |
| Total Trade and other receivables | 105,158,382 | (91,659,110) | 13,499,272 |
| Rates: Ageing | | | |
| Current (0 – 30 days) | | 89,715 | 84,842 |
| 31 - 60 Days | | 89,740 | 84,867 |
| 61 - 90 Days | | 89,740 | 84,867 |
| 91 - 120 Days | | 89,740 | 84,867 |
| + 121 Days | | 1,587,720 | 509,227 |
| Total | | 1,946,657 | 848,670 |
| Electricity, Water and Sewerage: Ageing | | | |
| Current (0 – 30 days) | | (274,444) | (741,709) |
| 31 - 60 Days | | 3,611,209 | 2,302,110 |
| 61 - 90 Days | | 2,435,360 | 2,239,177 |
| 91 - 120 Days | | 2,413,847 | 1,700,141 |
| + 121 Days | | 108,431,119 | 84,392,602 |
| Total | | 116,617,091 | 89,892,321 |
| Summary of Debtors by Customer Classification | Consumers | Industrial / Commercial | National and Provincial Government |
| | R | R | R |
| as at 30 June 2011 | | | |
| Current (0 – 30 days) | | | |
| 31 - 60 Days | | | |
| 61 - 90 Days | | | |
| 91 - 120 Days | | | |
| 121 - 365 Days | | | |
| + 365 Days | | | |
| Sub-total | - | - | - |
| Less: Provision for doubtful debts | - | - | - |
| Total debtors by customer classification | - | - | - |
| as at 30 June 2010 | | | |
| Current (0 – 30 days) | | | |
| 31 - 60 Days | | | |
| 61 - 90 Days | | | |
| 91 - 120 Days | | | |
| 121 - 365 Days | | | |
| + 365 Days | | | |
| Sub-total | - | - | - |
| Less: Provision for doubtful debts | - | - | - |
| Total debtors by customer classification | - | - | - |

| | | | |
|---|--|--------------------|-------------------|
| Reconciliation of the doubtful debt provision | | | |
| Balance at beginning of the year | | 86,675,789 | 55,548,757 |
| Contributions to provision | | | 31,127,032 |
| Doubtful debts written off against provision | | | |
| Reversal of provision | | | |
| Balance at end of year | | 86,675,789 | 86,675,789 |
| Trade and other receivables past due but not impaired | | | |
| Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 20x1, R - (20x0: R -) were past due but not impaired. | | | |
| The ageing of amounts past due but not impaired is as follows: | | | |
| 1 month past due | | | |
| 2 months past due | | | |
| 3 months past due | | | |
| Trade and other receivables impaired | | | |
| As of 30 June 20x1, trade and other receivables of R - (20x0: R -) were impaired and provided for. | | | |
| The amount of the provision was R - as of 30 June 20x1 (20x0: R -). | | | |
| The ageing of these receivables is as follows: | | | |
| 3 to 6 months | | | |
| Over 6 months | | | |
| The fair value of trade and other receivables approximates their carrying amounts. | | | |
| 3 VAT RECEIVABLE | | | |
| Vat Receivable | | | 246,463 |
| Total Other Debtors | | - | 246,463 |
| 4 INVENTORIES | | | |
| Opening balance of inventories: | | 350,365 | 1,204,803 |
| Water - at cost | | 57,784 | 1,119,025 |
| Water Meters - at cost | | 292,581 | 85,778 |
| Additions: | | 4,030 | |
| Water | | 4,030 | |
| Issued (expensed): | | (292,581) | 854,438 |
| Water - at cost | | | 1,061,241 |
| Water Meters - at cost | | (292,581) | (206,803) |
| Closing balance of inventories: | | 61,814 | 350,365 |
| Water - at cost | | 61,814 | 57,784 |
| Water Meters - at cost | | - | 292,581 |
| 5 INVESTMENTS | | | |
| ABSA call - Account number 91 1531 5268 | | 1,787,200 | 11,192,933 |
| First National Bank call - Account number | | | |
| ABSA call - Account number | | 40,000,000 | |
| First National Bank call - Account number | | 30,000,000 | |
| First National Bank call - Account number | | 5,180,662 | |
| Nedbank Investment Call - Account number | | 45,633,884 | |
| | | 122,601,745 | 11,192,933 |

| 6 NON-CURRENT RECEIVABLES | | | |
|----------------------------------|--|-------------------|-------------------|
| | | | |
| Car loans | | 69,939 | 69,939 |
| Umhlabuyalingana Loan | | 2,090,006 | 2,090,006 |
| AVIS Loan | | 242,792 | 254,792 |
| Councillors & Staff | | 51,656 | 51,656 |
| Debtor Fraud | | 3,805,917 | 3,805,917 |
| Shemula | | 2,730 | 2,730 |
| Land rates debtors | | | 1,855,378 |
| | | | |
| Mtuba Water | | 6,730,049 | 5,704,603 |
| Mhlathuze Water | | 345,633 | 345,633 |
| Pre- paid expense | | 100,000 | 100,000 |
| Ocilwane water | | 136,736 | 136,736 |
| | | | |
| Other non-current receivables | | | |
| Total | | 13,575,459 | 14,417,391 |
| | | | |
| | | | |
| | | | |
| | | | |

UMKHANYAKUDE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

7 PROPERTY, PLANT AND EQUIPMENT

| Reconciliation of Carrying Value | Land | Buildings | Infrastructure | Community | Heritage | Other Assets | Finance lease assets | Total |
|--|------|-------------------|--------------------------|-------------------|----------|------------------|----------------------|----------------------|
| | R | R | R | R | R | R | R | R |
| as at 1 July 2010 | | 21,535,869 | 1,038,786,305 | 11,034,839 | - | 3,826,100 | 1,305,222 | 1,076,488,335 |
| Cost/Revaluation | | 24,041,800 | 1,240,759,309 | 12,261,944 | - | 18,906,903 | 4,851,425 | 1,300,821,381 |
| Correction of error (note 48) | | | | | | | | - |
| Change in accounting policy (note 47) | | | | | | | | - |
| Accumulated depreciation and impairment losses | | (2,505,931) | (201,973,004) | (1,227,105) | - | (15,080,803) | (3,546,203) | (224,333,046) |
| Acquisitions | | - | - | - | - | 154,028 | - | 154,028 |
| Capital under Construction | | - | 226,330,666 | - | - | - | - | 226,330,666 |
| Depreciation | | - | - | - | - | - | - | - |
| Carrying value of disposals | | - | (181,756,416) | - | - | - | - | (181,756,416) |
| Cost/Revaluation | | - | (181,756,416) | - | - | - | - | (181,756,416) |
| Accumulated depreciation and impairment losses | | - | - | - | - | - | - | - |
| Impairment loss/Reversal of impairment loss | | - | - | - | - | - | - | - |
| Transfers | | - | - | - | - | - | - | - |
| Other movements* | | - | - | - | - | - | - | - |
| as at 30 June 2011 | | 21,535,869 | 1,083,360,555 | 11,034,839 | - | 3,980,128 | 1,305,222 | 1,121,216,614 |
| Cost/Revaluation | | 24,041,800 | 1,285,333,559 | 12,261,944 | - | 19,060,931 | 4,851,425 | 1,345,549,660 |
| Accumulated depreciation and impairment losses | | (2,505,931) | (201,973,004) | (1,227,105) | - | (15,080,803) | (3,546,203) | (224,333,046) |
| *Other movements consist of | | | | | | | | |
| Refer to Appendix B for more detail on property, plant and equipment | | | App B'A1 | | | | | |

UMKHANYAKUDE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| Reconciliation of Carrying Value | Land | Buildings | Infrastructure | Community | Heritage | Other Assets | Finance lease assets | Total |
|--|--------------|-------------------|--------------------------|-------------------|----------|------------------|----------------------|----------------------|
| | R | R | R | R | R | R | R | R |
| as at 1 July 2009 | 9,000 | 22,079,000 | 1,006,712,366 | 11,213,458 | - | 5,302,023 | 2,369,489 | 1,047,685,336 |
| Cost/Revaluation | 9,000 | 24,041,800 | 1,164,339,092 | 12,261,944 | - | 18,367,733 | 5,962,864 | 1,224,982,433 |
| Correction of error (note 48) | | | | | | | | - |
| Change in accounting policy (note 47) | | | | | | | | - |
| Accumulated depreciation and impairment losses | - | (1,962,800) | (157,626,726) | (1,048,486) | - | (13,065,710) | (3,593,375) | (177,297,097) |
| Acquisitions | - | - | 40,661 | - | - | 371,268 | 9,038 | 420,967 |
| Capital under Construction | - | - | 76,379,556 | - | - | - | - | 76,379,556 |
| Depreciation | - | (543,131) | (44,346,278) | (178,619) | - | (1,842,564) | (1,064,267) | (47,974,859) |
| Carrying value of disposals | - | - | - | - | - | - | - | - |
| Cost/Revaluation | - | - | - | - | - | 167,902 | (1,111,439) | (943,537) |
| Accumulated depreciation and impairment losses | - | - | - | - | - | (167,902) | 1,111,439 | 943,537 |
| Impairment loss/Reversal of impairment loss | - | - | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - | - | - |
| *Other movements | - | - | - | - | - | - | - | - |
| as at 30 June 2010 | - | 21,535,869 | 1,038,786,305 | 11,034,839 | - | 3,826,100 | 1,305,222 | 1,076,488,335 |
| Cost/Revaluation | - | 24,041,800 | 1,240,759,309 | 12,261,944 | - | 18,906,903 | 4,851,425 | 1,300,821,381 |
| Accumulated depreciation and impairment losses | - | (2,505,931) | (201,973,004) | (1,227,105) | - | (15,080,803) | (3,546,203) | (224,333,046) |
| *Other movements consist of | | | | | | | | |
| Refer to Appendix B for more detail on property, plant and equipment | | | App B!A1 | | | | | |

UMKHANYAKUDE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

8 INTANGIBLE ASSETS

| Reconciliation of carrying value | Computer Software R | Other* R | Total R |
|--|---------------------------|-------------|---------------|
| as at 1 July 2010 | 43,410 | - | 43,410 |
| Cost | 657,443 | | 657,443 |
| Correction of error (note 48) | | | - |
| Change in accounting policy (note 47) | | | - |
| Accumulated amortisation and impairment losses | (614,033) | | (614,033) |
| Acquisitions | | | - |
| Amortisation | | | - |
| Carrying value of disposals | - | - | - |
| Cost | | | - |
| Accumulated amortisation | | | - |
| Impairment loss/Reversal of impairment loss | | | - |
| Transfers | | | - |
| Other movements | | | - |
| as at 30 June 2011 | 43,410 | - | 43,410 |
| Cost | 657,443 | | 657,443 |
| Accumulated amortisation and impairment losses | (614,033) | | (614,033) |

*Note: "Other" consists of....., none of which are considered to be individually significant or material.

| Reconciliation of carrying value | Computer Software R | Other* R | Total R |
|--|---------------------------|-------------|---------------|
| as at 1 July 2009 | 19,870 | - | 19,870 |
| Cost | 614,787 | | 614,787 |
| Correction of error (note 48) | | | - |
| Change in accounting policy (note 47) | | | - |
| Accumulated amortisation and impairment losses | (594,917) | | (594,917) |
| Acquisitions | 42,656 | | 42,656 |
| Amortisation | (19,116) | | (19,116) |
| Carrying value of disposals | - | - | - |
| Cost | | | - |
| Accumulated amortisation | | | - |
| Impairment loss/Reversal of impairment loss | | | - |
| Transfers | | | - |
| Other movements | | | - |
| as at 30 June 2010 | 43,410 | - | 43,410 |
| Cost | 657,443 | | 657,443 |
| Accumulated amortisation and impairment losses | (614,033) | | (614,033) |

UMKHANYAKUDE DISTRICT MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

| | Note | 2011 R | 2010 R |
|---|------|-------------------|-------------------|
| 9 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS | | | |
| Trade creditors | | 39,455,645 | 40,210,706 |
| Payments received in advance | | 5,014 | 5,014 |
| Unallocated deposits | | 770,273 | |
| Retentions | | 7,252,990 | 7,458,120 |
| Bonus Pay Accrual | | 1,432,823 | 842,700 |
| Unallocated deposits | | 1,346,301 | |
| Other creditors | | 1,223,130 | 10,804,435 |
| Total creditors | | 51,486,174 | 59,320,975 |
| The fair value of trade and other payables approximates their carrying amounts. | | | |
| 10 CONSUMER DEPOSITS | | | |
| Jozini - Water Debtors | | 490,733 | 433,617 |
| Mtubatuba - Water Debtors | | 298,199 | 279,124 |
| Total consumer deposits | | 788,932 | 712,741 |
| Included in deposits is an accrual of interest at an effective interest rate of x% per annum (20X0 x%) which is paid to consumers when deposits are refunded. | | | |
| Guarantees held in lieu of Electricity and Water Deposits | | | |
| 11 VAT PAYABLE | | | |
| VAT payable | | 2,533,741 | |
| VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors. | | | |

| | | | | |
|----|--|---------------------------------|--------------------------|----------------------------|
| 12 | | | | |
| | PROVISIONS | | | |
| | Provision for leave | | 3,310,649 | 2,877,512 |
| | Back pay provision | | 1,103,236 | |
| | Total Provisions | | 4,413,886 | 2,877,512 |
| | Performance bonuses are paid one year in arrear as the assessment of eligible employees had not taken place at the reporting date and no present obligation exist. | | | |
| | | | | |
| | The movement in current provisions are reconciled as follows: - | Back Pay Provision | Performance Bonus | Provision for leave |
| | as at 1 July 2010 | | 397,980 | 2,067,127 |
| | Contributions to provision | 1,103,236 | | 1,243,522 |
| | Expenditure incurred | | (397,980) | |
| | as at 30 June 2011 | 1,103,236 | - | 3,310,649 |
| | | | | |
| | as at 1 July 2009 | | 788,598 | 1,792,706 |
| | Contributions to provision | | | |
| | Expenditure incurred | | (390,618) | 274,421 |
| | as at 30 June 2010 | - | 397,980 | 2,067,127 |
| 13 | | | | |
| | UNSPENT CONDITIONAL GRANTS AND RECEIPTS | | | |
| | Unspent Conditional Grants from other spheres of Government | | | |
| | Conditional Grants from Other Spheres of Government | | 109,263,908 | 33,441,012 |
| | Other | | 18,278,783 | 14,076,865 |
| | Other | | | |
| | Other Unspent Conditional Grants and Receipts | | | |
| | Other | | | |
| | Other | | | |
| | Total Unspent Conditional Grants and Receipts | | 127,542,691 | 47,517,877 |
| | Non-current unspent conditional grants and receipts | | 127,542,691 | 47,517,877 |
| | Current portion of unspent conditional grants and receipts | | | |
| | See Note 31 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised. | | | |
| | | Notes15-61'A291 | | |

| | | | | |
|-----------|--|------------------------------|-------------------------------|--|
| 14 | | | | |
| | BORROWINGS | | | |
| | Development Bank of South Africa | | 12,229,793 | 12,595,465 |
| | Annuity Loans | | | |
| | Government Loans : Other | | | |
| | Other borrowings | | | |
| | | | 12,229,793 | 12,595,465 |
| | Less : Current portion transferred to current liabilities | | - | (2,097,707) |
| | Development Bank of South Africa | | | (2,097,707) |
| | Annuity Loans | | | |
| | Government Loans : Other | | | |
| | Other borrowings | | | |
| | Total borrowings | | 12,229,793 | 10,497,758 |
| | Refer to Appendix A for more detail on borrowings. | App A'IA1 | | |
| 15 | | | | |
| | FINANCE LEASE LIABILITY | | | |
| | 2011 | Minimum lease payment | Future finance charges | Present value of minimum lease payments |
| | | R | R | R |
| | Amounts payable under finance leases | | | |
| | Within one year | | | |
| | Within two to five years | | | |
| | | - | - | - |
| | Less: Amount due for settlement within 12 months (current portion) | | | |
| | | | | |
| | The average lease term is x years and the average effective borrowing rate is x%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate between x% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset. | | | |
| | 2010 | Minimum lease payment | Future finance charges | Present value of minimum lease payments |
| | | R | R | R |
| | Amounts payable under finance leases | | | |
| | Within one year | 1,238,973 | (230,002) | 1,008,971 |
| | Within two to five years | 344,773 | | 344,773 |
| | | 1,583,746 | (230,002) | 1,353,744 |
| | Less: Amount due for settlement within 12 months (current portion) | | | (1,066,680) |
| | | | | 287,064 |
| | The average lease term is x years and the average effective borrowing rate is x%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate between x% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset. | | | |
| 16 | | | | |
| | PROPERTY RATES | | | |
| | Actual | | | |
| | Residential | | | 48,308 |
| | Commercial | | 963,145 | 360,088 |
| | Light Industries | | | |
| | Heavy Industries | | | |
| | State | | | 336,052 |
| | Total property rates | | 963,145 | 744,448 |
| | Property rates - penalties imposed and collection charges | | | |
| | Total | | 963,145 | 744,448 |
| | 2009. Valuations on land and buildings are performed every four years. The last | | | |
| | A general rate randage of R0.0025 to property valuations relating to Agricultural and a general rate randage of R0.01 is applied to all other property valuations to determine assessment rates. . Rates are levied on a monthly basis on property owners. | | | |
| | Interest at prime is levied on outstanding rates, since 01 July 2010. | | | |

| | | | |
|------|---|--------------------|--------------------|
| 17 | | | |
| | SERVICE CHARGES | | |
| | Sale of electricity | 5,017,085 | 1,186,426 |
| | Sale of water | 36,934,733 | 29,494,301 |
| | Refuse removal | - | |
| | Sewerage and sanitation charges | 1,429,811 | 937,260 |
| | Total Service Charges | 43,381,630 | 31,617,987 |
| 18 | | | |
| | RENTAL OF FACILITIES AND EQUIPMENT | | |
| | Rental of facilities | 167,446 | 70,865 |
| | Total rentals | 167,446 | 70,865 |
| 19 | | | |
| | INTEREST EARNED - EXTERNAL INVESTMENTS | | |
| | Bank | 4,797,056 | 700,696 |
| | Financial assets | | |
| | Other | | 108,762 |
| | Total interest | 4,797,056 | 809,458 |
| 20 | | | |
| | GOVERNMENT GRANTS AND SUBSIDIES | | |
| | Equitable share | 133,128,378 | 105,880,714 |
| | MIG Grant | | |
| | Other Government Grants and Subsidies | 55,853,773 | 5,384,687 |
| | Total Government Grant and Subsidies | 188,982,151 | 111,265,401 |
| 20.1 | | | |
| | Equitable Share | | |
| | 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 of Rx (20X0; Rx), which is funded from the grant. | 133,128,378 | 105,880,714 |
| 20.2 | | | |
| | MIG Grant | | |
| | Balance unspent at beginning of year | - | - |
| | Current year receipts | 109,263,908 | - |
| | Conditions met - transferred to revenue | - | - |
| | Conditions still to be met - remain liabilities (see note 21) | 109,263,908 | - |
| | <i>Provide explanations of conditions still to be met and other relevant information</i> | | |
| 20.3 | | | |
| | Other Government Grants and Subsidies | | |
| | Balance unspent at beginning of year | 14,076,865 | |
| | Current year receipts | 60,055,691 | 19,461,552 |
| | Conditions met - transferred to revenue | (55,853,773) | (5,384,687) |
| | Conditions still to be met - remain liabilities (see note 21) | 18,278,783 | 14,076,865 |
| | <i>Provide explanations of conditions still to be met and other relevant information</i> | | |

| | | | | |
|-------------|---|---------------------------|---------------------------|-----------------------------|
| 21 | | | | |
| | OTHER INCOME | | | |
| | Other income | | | 632,579 |
| | Tender monies | 31,798.24 | | |
| | Casino levy income | 2,909.63 | | |
| | Insurance claim refunds | 1,123.10 | | |
| | Schemes Chemicals 7 Purification | 42,880.00 | | |
| | Security | 15,636.50 | | |
| | Educational bursaries | 15,600.00 | | |
| | Repair & Maintenance Council homes | 221,964.67 | | |
| | Total Other Income | 331,912 | | 632,579 |
| 22 | | | | |
| | EMPLOYEE RELATED COSTS | 59,220,840 | | 53,477,154 |
| | Basic | 38,852,257 | | 33,983,462 |
| | Bonus | | | (397,980) |
| | Medical Aid - company Contributions | 1,830,079.31 | | 1,521,332 |
| | UIF | 315,879 | | 298,549 |
| | WCA | | | 215,602 |
| | SDL | 443,121 | | 404,600 |
| | Other payroll Levies | | | 14,716 |
| | Leave pay provisiuon charges | 869,055 | | 1,209,564 |
| | Pension | 4,614,550 | | 4,134,095 |
| | Other allowances | 318,750 | | 716,647 |
| | Industrial Council | 15,034 | | |
| | Cell phone allowances | 655,053 | | |
| | Overtime payments | 2,064,545 | | 2,371,793 |
| | Car allowances | 4,269,064 | | 3,688,376 |
| | Housing benefits and allowances | 135,196 | | 458,547 |
| | Group Life | 703,031 | | |
| | Termination benefits | | | 638,368 |
| | Employee Related Costs | 55,085,615 | | 49,257,671 |
| | There were no advances to employees / Loans to employees are set out in note 3. | | | |
| | Remuneration of the Municipal Manager | | | |
| | Annual Remuneration | 887,201 | | 582,783 |
| | Cell allowance | 19,447 | | 26,945 |
| | Housing allowance | 7,800 | | 15,205 |
| | Travel allowance and claims | 74,299 | | 46,920 |
| | Subsistence | | | 926 |
| | Back pay | | | 65,417 |
| | Contributions to UIF, Medical and Pension Funds | 34,511 | | 53,858 |
| | Total | 1,023,258 | | 792,054 |
| | Remuneration of the Chief Finance Officer | | | |
| | Annual Remuneration | 474,000 | | 558,949 |
| | Cell allowance | 7,200 | | 9,600 |
| | Leave pay | - | | 59,617 |
| | Housing allowance | | | |
| | Travel allowance and claims | 56,250 | | 199,698 |
| | Subsistence | - | | 155 |
| | Back pay | - | | 30,094 |
| | Contributions to UIF, Medical and Pension Funds | 39,726 | | 167,656 |
| | Total | 577,176 | | 1,025,769 |
| | Remuneration of Individual Executive Directors | Technical Services | Corporate Services | Planning and Tourism |
| | | R | R | R |
| 2011 | | | | |
| | Annual Remuneration | 495,981 | 580,754 | 548,303 |
| | Performance bonus | | | |
| | Housing allowance | | | 26,400 |
| | Travel allowances and claims | 219,112 | 79,424 | 148,827 |
| | Acting allowance | | | |
| | Total | 869,601 | 795,145 | 870,045 |
| | | Technical Services | Corporate Services | Planning and Tourism |
| | | R | R | R |
| 2010 | | | | |
| | Annual Remuneration | 289,322 | 555,919 | 454,196 |
| | Cell allowance | 5,600 | 9,600 | 12,175 |
| | Performance bonus | - | | |
| | Housing allowance | | | 26,400 |
| | Travel allowances and claims | 110,427 | 26,852 | 234,603 |
| | Contributions to UIF, Medical and Pension Funds | 83,581 | 127,883 | 132,624 |
| | Subsistence allowance | 504 | 121,271 | |
| | Back pay | | 105 | 30,094 |
| | Acting allowance | | | 105,915 |
| | Total | 489,434 | 841,630 | 1,070,596 |

| | | | |
|-----------|---|-------------------|-------------------|
| 23 | REMUNERATION OF COUNCILLORS | | |
| | Executive Mayor | 359,307 | 384,616 |
| | Deputy Mayor, speaker and EXCO members | 1,255,989 | 1,137,853 |
| | Councillors | 1,804,033 | 948,386 |
| | Councillors' allowances | 96,884 | |
| | Total Councillors' Remuneration | 3,516,213 | 2,470,855 |
| | In-kind Benefits | | |
| | The Executive Mayor, Deputy Executive Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. | | |
| | The Executive Mayor is entitled to stay at the mayoral residence owned by the Council at no cost. The Executive Mayor has use of the Council owned vehicle for official duties. The Executive Mayor has x full-time bodyguards. | | |
| 24 | DEPRECIATION AND AMORTISATION EXPENSE | | |
| | Property, plant and equipment | | |
| | Intangible assets | | |
| | Investment property carried at cost | | |
| | Biological assets carried at cost | | |
| | Total Depreciation and Amortisation | - | - |
| 25 | FINANCE COSTS | | |
| | Borrowings | | |
| | Other interest paid | 1,070,281 | 1,985,267 |
| | Bank overdrafts | | 23,966 |
| | Total Finance Costs | 1,070,281 | 2,009,233 |
| 26 | BULK PURCHASES | | |
| | Electricity | | 4,148,131 |
| | Water | 28,465,911 | 48,079,326 |
| | Total Bulk Purchases | 28,465,911 | 52,227,457 |
| 27 | CONTRACTED SERVICES | | |
| | Contracted services for: | | |
| | Office equipment | 2,831,759 | 120,249 |
| | | 2,831,759 | 120,249 |
| 28 | GRANTS EXPENDITURE | | |
| | Grant Expenditure | | |
| | CORRIDOR DEVELOPMENT | 140,000 | |
| | DC27 5700725574 | 561,164 | |
| | DC27 7155348610 | 8,948 | |
| | DC27 BOOSTER PUMP STATION | 2,009 | |
| | DC27 BOREHOLE POLE NO PT 713 TW78 | 18,558 | |
| | DC27 HONEY DALE TOWNSHIP | 4,435 | |
| | DC27 LANDRATE (IDENTIFY THE PRE ID NUMBER) | 9,230 | |
| | DC27 MKT 2529 WATER PURIFICATION-CANAL | 450,342 | |
| | DC27 MTBR 3204 MAINSIC 4 200 (UMDM) | 24,219 | |
| | DC27 MTBR 3204 MAINSIC 4 200 (UMDM) | 37,522 | |
| | DC27 NDOMBENI RESERVE | 5,520 | |
| | DC27 OQAKWINI WATER | 9,685 | |
| | DC27 TOWN WATER PUMP | 6,334 | |
| | DC27 UMDM CONNECTION FEE PH3 | 8,772 | |
| | DC27 UMDM WATER WORKS | 301,295 | |
| | DC27 WATER POINT FOR COMMUNITY USAGE | 15,838 | |
| | DC27 WATER PUMP STATION AT HOSPITAL | 4,643 | |
| | DISASTER MANAGEMENT | 7,157,668 | 5,681,016 |
| | DISASTER MANAGEMENT - GRANT EXPENDITURE | 7,273 | |
| | Electricity schemes & buildings | | 5,145,093 |
| | ELECTRICITY PLANTS | 320,360 | |
| | ELECTRICITY PLANTS | 5,935,328 | |
| | OTHER | | 4,676,654 |
| | ENVIRONMENTAL MANAGEMENT GRANT EXPENDITURE | 10,885 | |
| | GRANT TRANSFERS:UMHLOSINGA DEVELOPMENT AGENCY | 150,000 | |
| | INTERGOV RELATIONS IMPLEMENTATION | 10,885 | |
| | K1271 PUMP MATSHEMULA | 1,187,427 | |
| | K2271 ENKANYEZINI PUMP SUPPLY | 32,895 | |
| | K2271 ENKANYEZINI PUMP SUPPLY | 27,941 | |
| | K2271 KWANGWANASE BOREHOLE | 12,464 | |
| | K2271 KWASHENGEZA LAKE | 1,193 | |
| | K2271 LAKE TETE TOURISM | 9,888 | |
| | K2271 MANGUZI PURIFICATION PLANT | 25,864 | |

| | | | |
|---|--|------------|------------|
| KZ271 MANGUZI SEWERAGE | | 507 | |
| KZ271 MANGUZI SEWERAGE | | 29,208 | |
| KZ271 MBAZWANA | | 86,457 | |
| KZ271 MBAZWANA MULTI PUR POSE COMMUNITY CENTRE | | 35,616 | |
| KZ271 MKT1495 KWANGWANAS E BOREHOLE | | 26,284 | |
| KZ271 MSELENI WATER PROJECT | | 1,144 | |
| KZ271 PUMP MAT SHEMULA | | 1,187,427 | |
| KZ271 PUMP SUPPLY AT MSE LENI MAKHATHINI RURAL | | 213,039 | |
| KZ271 SITE AT NTSHONGENI AREA GEDLEZA | | 4,351 | |
| KZ272 AMANZI RES CAMP SITE MAKHATHINI RURAL | | 8,455 | |
| KZ272 BLACKIE-DAM MAKHATHINI RURAL | | 126,406 | |
| KZ272 BOOSTER PUMP STATION BETHESDA HOSP MKUZE | | 71,632 | |
| KZ272 BSOUTH SERVICE CENTRE MAKHATHINI RURAL | | 13,263 | |
| KZ272 LAKE SIBAYA MAKHATHINI RURAL | | 58,747 | |
| KZ272 MAKHATHINI RURAL LAKE TETE TOURISM | | 96,688 | |
| KZ272 MAKHATHINI RURAL MKT 1794 | | 12,632 | |
| KZ272 MAMFENE PUMPSTATION MAKHATHINI | | 82,545 | |
| KZ272 MKT 3184 BOREHOLE AT MTHUNZINI AREA | | 1,658 | |
| KZ272 MKUZE RETICULATION | | 195 | |
| KZ272 MUNICIPAL OFFICES MKUZE | | 266,544 | |
| KZ272 NTSHONGWENI AREA (GEDLEZA) | | 4,527 | |
| KZ272 NYAWOSHANE WATER SCHEME | | 8,446 | |
| KZ272 OTHOBOTHINI PUMP STATION | | 71,785 | |
| KZ272 PUMP B OTHOBOTHINI AREA | | 36,325 | |
| KZ272 PUMPSTATION NO.1 MAKHATHINI RURAL | | 54,205 | |
| KZ272 PUMPSTATION NO.3 MAKHATHINI RURAL | | 60,075 | |
| KZ272 QONDILE GUJINI WATER COMMITTEE MAKHATHINI | | 10,543 | |
| KZ272 THANDIZWE SUBWARD MAKHATHINI RURAL | | 25,825 | |
| KZ272 UMDM WATER WORKS JOZINI | | 347,899 | |
| KZ272 WATER PUMP 2 HLABISA NONGOMA | | 15,690 | |
| KZ272 WATER PUMP-INGWAVU MA MAKHATHINI RURAL | | 5,774 | |
| KZ272 WATER SUPPLY INHLWATHI RES HLUHLUWE | | 16,201 | |
| KZ272 WATER WORKS JOZINI TOWN | | 190,423 | |
| KZ272 WATER WORKS JOZINI TOWN 2 | | 77,267 | |
| KZ273 EZIBAYENI WATER PROJECT | | 404 | |
| KZ273 EZIBAYENI WATER PROJECT | | 17,450 | |
| KZ273 EZIBAYENI WATER PROJECT 1 | | 22,468 | |
| KZ273 EZIBAYENI WATER PROJECT 2 | | 25,894 | |
| KZ273 EZIBAYENI WATER PROJECT 3 | | 24,578 | |
| KZ273 EZIBAYENI WATER PROJECT 4 | | 1,984 | |
| KZ273 EZIBAYENI WATER PROJECT HLUHLUWE | | 34,204 | |
| KZ273 MAKHASA SPORTS COMPLEX | | 62,100 | |
| KZ273 NEAR HLUHLUWE DAMRURAL 27 | | 799,589 | |
| KZ273 NIBELA BOREHOLE HLUHLUWE | | 7,899 | |
| KZ273 PUMP ON LOT 61 HLUHLUWE | | 6,282 | |
| KZ273 WELLFIELD BOREHOLE (UMDM) | | 8,558 | |
| KZ274 GULAMANSIYA BOREHOLE | | 6,139 | |
| KZ274 HLABISA PURIFICATION PLANT | | 3,071 | |
| KZ274 MATSHAMHLOPHE WATER PROJECT | | 4,677 | |
| KZ274 MPELENYANE HLABISA AREA WATER PUMP | | 23,344 | |
| KZ274 OPHAPHASI BOREHOLE | | 11,508 | |
| KZ274 SOMILE | | 11,076 | |
| KZ274 UMDM GLENPARKS ESTATE NO.13069 HLABISA | | 317,288 | |
| KZ274 WATER PUMP AT HLABISA NONGOMA RURAL | | 5,613 | |
| KZ274 WATER PUMP IN HLABISA NONGOMA | | 8,427 | |
| KZ274 WATER PUMP MPEMBENI NONGOMA | | 7,807 | |
| KZ275 DONDOTHA BOREHOLE | | 23,065 | |
| KZ275 EKUPHELENI BOREHOLE | | 21,813 | |
| KZ275 GEZISA PUMPSTATION IN MANGUZI | | 49,944 | |
| KZ275 KWAMSANE | | 26,100 | |
| KZ275 KWAMSANE RESERVE OXIDATION PUMP | | 8,604 | |
| KZ275 MFEKAYI WATER MTUBA | | 880 | |
| KZ275 MTBR 3199 MAHAYE PUMP STATION | | 65,581 | |
| KZ275 NKOLOKOTHO PUMP STATION IN UMFOLOZI RIVER | | 152,378 | |
| KZ275 NOMATHIYA SCHOOL RESERVIOR | | 4,230 | |
| KZ275 POINT NO.3 170 ST LUCIA | | 16,264 | |
| KZ275 SEWER PUMP STATION 2 MTUBATUBA | | 6,328 | |
| KZ275 SEWER PUMP STATION 3 MTUBATUBA | | 6,863 | |
| KZ275 SEWER PUMP STATION MTUBA | | 27,474 | |
| KZ275 SEWERAGE PUMP NO.4 ST LUCIA | | 10,134 | |
| KZ275 SOMILE WATER PROJECT MADWALENI AREA | | 9,127 | |
| KZ275 SOMKHELE WATER PROJECT | | 1,901 | |
| KZ275 ST LUCIA PUMP NO.2 | | 7,023 | |
| KZ275 ST LUCIA PUMP STATION NO.2 | | 8,738 | |
| KZ275 ST LUCIA PUMP STATION NO.5 | | 743 | |
| KZ275 ST LUCIA SEWER TREATMENT WORKS MTUBA | | 11,158 | |
| KZ275 ST LUCIA SEWERAGE DISP PUMP | | 53,759 | |
| KZ275 ST LUCIA WASTE TRANSFER STATION | | 10,880 | |
| KZ275 VULAMEHLO PUMP STATION MTUBA | | 330,532 | |
| KZ275 WASTEWATER TREATMENT WORKS MTUBA | | 211,734 | |
| KZ275 WATER PUMP IN MSEL ENI MAKHATHINI RURAL | | 38,476 | |
| MSIG OPERATIONAL COSTS | | 194,497 | |
| SHARED SERVICES | | 18,388 | |
| SUPPORT AND DEV CAPACITY | | 455,606 | |
| GRANT EXPENDITURE PER AFS | | 22,928,943 | 15,502,763 |

| | | | |
|-----------|--|----------------|-------------------|
| 29 | | | |
| | GENERAL EXPENSES | | |
| | Included in general expenses are the following:- | | |
| | Accounting Fees | | 1,788,449 |
| | Advertising | 77,331 | 2,738,292 |
| | Arts & Culture | 186,687 | |
| | Audit fees | 1,765,507 | 325,044 |
| | Internal Audit | 775,445 | |
| | Audit Committe fees | 69,130 | |
| | Bank charges | 308,026 | 328,888 |
| | Burial aid | 20,692 | |
| | Chemicals and diesel | | 593,176 |
| | Cleaning | 22,547 | 160,878 |
| | Community development and training | | 1,312,616 |
| | Community partipation | 32,919 | |
| | Consulting and professional fees | | 537,949 |
| | Disaster management | | |
| | Electricity Connections | 42,652 | |
| | Entertainment | 1,030 | 2,874,609 |
| | Fuel and oil | 107,756 | 1,402,854 |
| | IDP Roadshows | 23,400 | |
| | Insurance | | 1,333,039 |
| | Interview expenses | 20,946 | |
| | Lease payments | 3,588,974 | |
| | Legal expenses | 1,271,277 | |
| | Membership fees | 6,160 | 422,796 |
| | Licence fees - vehicles | 184,206 | |
| | Medical Examinations | 1,400 | |
| | Mayoral descretionay fund | 158,000 | |
| | New connections | | 254,694 |
| | Old age pensioners | 335,711 | |
| | Other | 1,911 | 3,122,958 |
| | Postage | 2,506 | 513 |
| | Printing and stationery | 105,027 | 706,696 |
| | Promotions and sponsorship | | 453,427 |
| | Protective clothing & Uniforms | 119,712 | |
| | Rental of buildings | 59,655 | |
| | Security costs | 1,061,142 | 1,351,214 |
| | Skills development levies | | |
| | System support | 184,184 | 464,954 |
| | Small tools | 3,065 | 5,562 |
| | Sports DC 27 | 878,562 | |
| | Staff welfare | | 52,240 |
| | Subscription & publication | | 221,876 |
| | Telephone cost | 1,392,409 | 2,579,870 |
| | Tourism development | | 534,860 |
| | Tourism information centres | 200 | |
| | Training | 73,830 | 165,614 |
| | Travel and subsistence | 1,750,772 | 3,833,680 |
| | Valuation costs | 1,555 | |
| | Water and Sanitation | | |
| 30 | | - | 14,634,325 |
| | GAIN / (LOSS) ON SALE OF ASSETS | | 27,566,748 |
| | Property, plant and equipment | 474,003 | |
| | Intangible assets | | |
| | Investment property | | |
| | Biological assets | | |
| | Other financial assets | | |
| | Total Gain / (Loss) on Sale of Assets | 474,003 | - |

| | | | | |
|----|---|--|---|---|
| 31 | | | | |
| | IMPAIRMENT LOSS / (REVERSAL OF IMPAIRMENT LOSS) | | | |
| | Property, plant and equipment | | | |
| | Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount (or recoverable service amount) of the asset was based on its fair value less costs to sell or [its value in use.] | | | |
| | Intangible assets | | | |
| | Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount (or recoverable service amount) of the asset was based on its fair value less costs to sell or [its value in use.] | | | |
| | Investment property | | | |
| | Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount (or recoverable service amount) of the asset was based on its fair value less costs to sell or [its value in use.] | | | |
| | Biological assets | | | |
| | Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount (or recoverable service amount) of the asset was based on its fair value less costs to sell or [its value in use.] | | | |
| | Other financial assets | | | |
| | Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount (or recoverable service amount) of the asset was based on its fair value less costs to sell or [its value in use.] | | | |
| | Total Impairment loss / (Reversal of Impairment Loss) | | - | - |
| | Value in use | | | |
| | Provide: A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount (or recoverable service amount) is most sensitive. | | | |
| | A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information. | | | |
| | The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified. | | | |
| | The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated. | | | |
| | The discount rate(s) applied to the cash flow projections was x% (20x0:x%). | | | |
| | Fair value less cost to sell | | | |
| | Provide: A description of the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed: | | | |
| | A description of each key assumption on which management has based its determination of fair value less costs to sell. | | | |
| | A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information. | | | |
| | Sensitivity of key assumptions | | | |

| | | | |
|----|---|---------------------------------|-------------------|
| 32 | | | |
| | PROFIT / (LOSS) ON FAIR VALUE ADJUSTMENT | | |
| | Investment property carried at fair value | | |
| | Biological assets carried at fair value | | |
| | Other financial assets | | |
| | Other financial liabilities | | |
| | Total Profit / (Loss) on Fair Value Adjustment | - | - |
| 33 | | | |
| | CASH GENERATED BY OPERATIONS | | |
| | Surplus/(deficit) for the year | 109,414,969 | (8,315,761) |
| | Adjustment for:- | | |
| | Depreciation and amortisation | - | 47,998,606 |
| | (Gain) / loss on sale of assets | 474,003 | - |
| | Contribution to provisions - non-current | (397,980) | |
| | Contribution to provisions - current | | |
| | Finance costs | | |
| | Fair value adjustments | | |
| | Impairment loss / (reversal of impairment loss) | | |
| | Other non-cash item | | |
| | Operating surplus before working capital changes: | 109,490,992 | 39,682,845 |
| | (Increase)/decrease in inventories | 288,552 | |
| | (Increase)/decrease in trade receivables | | |
| | (Increase)/decrease in other receivables | (27,822,757) | |
| | (Increase)/decrease in VAT receivable | 246,463 | |
| | Increase/(decrease) in conditional grants and receipts | 80,024,814 | |
| | Increase/(decrease) in trade payables | (7,834,796) | |
| | Increase/(decrease) in consumer deposits | | |
| | Increase/(decrease) in VAT payable | | |
| | Other asset | | |
| | Other liability | | |
| | Cash generated by/(utilised in) operations | 154,393,268 | 39,682,845 |
| 34 | | | |
| | CASH AND CASH EQUIVALENTS | | |
| | Cash and cash equivalents included in the cash flow statement comprise the following: | | |
| | Bank balances and cash | 5,297,874 | 5,318,555 |
| | Bank overdrafts | - | |
| | Net cash and cash equivalents (net of bank overdrafts) | 5,297,874 | 5,318,555 |
| 35 | | | |
| | UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION | | |
| | Long-term liabilities (see Note 22) | Notes15-61!A135 | |
| | Used to finance property, plant and equipment – at cost | | |
| | Sub- total | | |
| | Cash set aside for the repayment of long-term liabilities | | |
| | Cash invested for repayment of long-term liabilities | | |
| | Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date. | | |

| | | | |
|-------------|---|---------------------------------|--------------------|
| 36 | UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED | | |
| 36.1 | Unauthorised expenditure | | |
| | Reconciliation of unauthorised expenditure | | |
| | Opening balance | 102,962,130 | 55,468,471 |
| | Unauthorised expenditure current year | | 47,493,659 |
| | Approved by Council or condoned | | - |
| | Transfer to receivables for recovery | | - |
| | Unauthorised expenditure awaiting authorisation | 102,962,130 | 102,962,130 |
| 30.2 | Fruitless and wasteful expenditure | | |
| | Reconciliation of fruitless and wasteful expenditure | | |
| | Opening balance - | 950,146 | 206,944 |
| | Fruitless and wasteful expenditure current year | | 743,202 |
| | Condoned or written off by Council | | |
| | To be recovered – contingent asset (see note 55) | Notes15-61!A883 | |
| | Fruitless and wasteful expenditure awaiting condonement | 950,146 | 950,146 |
| 50.3 | Irregular expenditure | | |
| | Reconciliation of irregular expenditure | | |
| | Opening balance | 35,492,924 | 34,016,666 |
| | Fruitless and wasteful expenditure current year | | 1,476,258 |
| | Condoned or written off by Council | | |
| | Transfer to receivables for recovery – not condoned | | |
| | Irregular expenditure awaiting condonement | 35,492,924 | 35,492,924 |

| | | | | |
|-------------|---|--------------|--------------------------------------|--------------------------------------|
| 37 | ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT | | | |
| 37.1 | Contributions to organised local government | | | |
| | Opening balance | | | |
| | Council subscriptions | | | |
| | Amount paid - current | | | |
| | Amount paid - previous years | | | |
| | Balance unpaid (included in payables) | | - | - |
| 37.2 | Audit fees | | | |
| | Opening balance | | | |
| | Current year audit fee | 1,765,507 | | 325,044 |
| | Amount paid - current year | (1,765,507) | | (325,044) |
| | Amount paid - previous years | | | |
| | Balance unpaid (included in payables) | | - | - |
| | The balance unpaid represents the audit fee for an interim audit conducted during May and June 20X2 and is payable by 31 July 20X2 . | | | |
| 37.3 | VAT | | | |
| | VAT input receivables and VAT output payables are shown in note 18. All VAT returns have been submitted by the due date throughout the year. | | | |
| 37.4 | PAYE and UIF | | | |
| | Opening balance | | | |
| | Current year payroll deductions | | | 6,565,756 |
| | Amount paid - current year | | | (6,565,756) |
| | Amount paid - previous years | | | |
| | Balance unpaid (included in payables) | | - | - |
| | The balance represents PAYE and UIF deducted from the June 20X2 payroll. These amounts were paid during July 20X2 | | | |
| 37.5 | Pension and Medical Aid Deductions | | | |
| | Opening balance | | | |
| | Current year payroll deductions and Council Contributions | 6,444,629 | | 9,570,189 |
| | Amount paid - current year | (6,444,629) | | (9,570,189) |
| | Amount paid - previous years | | | |
| | Balance unpaid (included in payables) | | 0 | - |
| | The balance represents pension and medical aid contributions deducted from employees in the June 20X2 payroll as well as Council's contributions to pension and medical aid funds. These amounts were paid during July 20X2 . | | | |
| 37.6 | Councillor's arrear consumer accounts | | | |
| | The following Councillors had arrear accounts outstanding for more than 90 days as at: - | Total | Outstanding less than 90 days | Outstanding more than 90 days |
| | | R | R | R |
| | as at 30 June 2011 | | | |
| | Councillor xx | - | | |
| | Councillor xx | - | | |
| | Councillor xx | - | | |
| | Total Councillor Arrear Consumer Accounts | - | - | - |
| | as at 30 June 2010 | | | |
| | Councillor xx | - | | |
| | Councillor xx | - | | |
| | Councillor xx | - | | |
| | Total Councillor Arrear Consumer Accounts | - | - | - |
| | During the year the following Councillors had arrear accounts outstanding for more than 90 days. | | Highest Amount Outstanding | Ageing Days |
| | | | R | |
| | as at 30 June 2011 | | | |
| | Councillor xx | | | x days |
| | Councillor xx | | | x days |
| | as at 30 June 2010 | | | |
| | Councillor xx | | | x days |

| | | | | |
|-------------|--|--|---|--------------------|
| | Councillor xx | | | x days |
| 37.7 | Non-Compliance with Chapter 11 of the Municipal Finance Management Act | | | |
| | The Municipality has not developed a supply chain management policy due to (reason) | | | |
| 38 | CAPITAL COMMITMENTS | | | |
| 38.1 | Commitments in respect of capital expenditure | | | |
| | - Approved and contracted for | | - | 157,005,000 |
| | Infrastructure | | | 120,225,023 |
| | Community | | | 4,770,702 |
| | Heritage | | | |
| | Other | | | 32,009,275 |
| | - Approved but not yet contracted for | | - | - |
| | Infrastructure | | | |
| | Community | | | |
| | Heritage | | | |
| | Other | | | |
| | Total | | - | 157,005,000 |
| | This expenditure will be financed from: | | | |
| | - External Loans | | | |
| | - Government Grants MIG | | | 157,005,000 |
| | - Own resources | | | |
| | - District Council Grants | | | |
| | | | - | 157,005,000 |
| 38.2 | Operating leases | | | |
| | At the reporting date the entity has outstanding commitments under operating leases which fall due as follows: | | | |
| | Operating leases - lessee | | | |
| | Within one year | | | |
| | In the second to fifth year inclusive | | | |
| | After five years | | | |
| | Total | | - | - |
| | Total future minimum sublease payment expected to be received under non-cancellable sublease | | | |
| | Operating Leases consists of the following: Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable / Contingent rent is payable based on x% of the municipality's sales. | | | |
| | Operating leases – as lessor | | | |
| | Minimum lease payments due | | | |
| | Within one year | | | 3,579 |
| | In second to fifth year inclusive | | | 2,088 |
| | After five years | | | |
| | Total | | - | 5,667 |
| | Operating Leases consists of the following: Certain of the municipality's equipment is held to generate rental income. Rental of equipment is expected to generate rental yields of -% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable / Contingent rent is receivable based on x% of the municipality's sales which amounts to R -. | | | |

| | | | |
|-------------|--|---------------------------------|---|
| 39 | | | |
| | RETIREMENT BENEFIT INFORMATION | | |
| 39.1 | | | |
| | Defined contribution plan | | |
| | The following are defined contribution plans: xxxxxxxxxxxxxxxxxxxx. These contributions have been expensed. | | |
| 40 | | | |
| | CONTINGENT LIABILITY | | |
| 54.1 | Claim for damages | | |
| | The Municipality is being sued by a ratepayer due to damages arising from flooding. Council is contesting the claim based on legal advice. A court date has not yet been set. The contingent liability includes legal costs of Rxx. Should Council be unsuccessful in defending the claim, there is a possibility that the claim will be settled from xxx | | |
| 54.2 | Performance bonus dispute – Legal fees | | |
| | Several senior officials are disputing the assessment process regarding the payment of performance bonuses. Provision has been made for the payment of the bonuses as assessed by the Municipality. The claim is being considered by the labour court after the CCMA ruled in favour of the Council. | | |
| 41 | | | |
| | CONTINGENT ASSET | | |
| | Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 50.2, civil proceedings have commenced against the employees concerned to recover an amount of Rxxx. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain. | Notes15-61'A707 | |
| 42 | | | |
| | IN-KIND DONATIONS AND ASSISTANCE | | |
| | The Municipality received the following in-kind donations and assistance | | |
| | Description | | |
| | E.g. Development of Integrated Development Plan by donor agency | | |
| 43 | | | |
| | RELATED PARTIES | | |
| | Joint Ventures | | <i>insert related party description</i> |
| | Associates | | <i>insert related party description</i> |
| | Members of key management | | <i>insert related party description</i> |
| | Close family member of key management | | <i>insert related party description</i> |
| | Post employment benefit plan for employees of municipality and/or other related parties | | <i>insert related party description</i> |
| | Other related party relationships | | <i>insert related party description</i> |
| | Compensation to councillors and other key management (refer to note 33 & 34) | | |

| | | | | |
|------|--|--|---|------------|
| | Related party balances | | | |
| | Loan accounts - Owing (to) by related parties | | | |
| | <i>Municipal Entity - Umhlosinga Development Agency</i> | | | |
| | Amounts included in Trade receivable (Trade payable) regarding related parties | | | |
| | <i>insert related party</i> | | | |
| | Related party transactions | | | |
| | Expenses paid on behalf of related party | | | |
| | <i>Telephone</i> | | - | - |
| | Salary Cost of seconded Chief Financial Officer | | | 603,027 |
| | <i>insert related party</i> | | | |
| | Purchases from (sales to) related parties | | | |
| | <i>insert related party</i> | | | |
| 44 | EVENTS AFTER THE REPORTING DATE | | | |
| | | | | |
| | The Municipality has agreed in principle to transfer its electricity function to the new Regional Electricity Distributor (RED) - Region AB. The date of transfer is proposed for xxx. The financial effect of this transfer is not yet known as the Municipality is uncertain as to what its share of the revenue of the RED will be or what the terms and conditions of the transfer will be. There are ongoing discussions with the management of RED - Region AB and EDI Holdings, which is the responsible authority for the implementation of REDS nationally. | | | |
| 45 | KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS | | | |
| | The following areas involve a significant degree of estimation uncertainty: | | | |
| | Useful lives and residual values of property, plant, and equipment | | | |
| | Recoverable amounts of property, plant and equipment | | | |
| | Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows) | | | |
| | Present value of defined benefit obligation | | | |
| | Fair value of plan assets | | | |
| | Provision for doubtful debts | | | |
| | Impairment of assets | | | |
| | Provision for long-term service award | | | |
| | Other | | | |
| | The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements: | | | |
| | Impairment of assets | | | |
| | Provisions | | | |
| | Other | | | |
| 46 | RISK MANAGEMENT | | | |
| 60.1 | Maximum credit risk exposure | | | |
| | Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. | | | |
| | | | | |
| | Trade receivables comprise a widespread customer base. | | | |
| | Financial assets exposed to credit risk at year end were as follows: | | | |
| | FNB Bank | | | 6,924,725 |
| | ABSA Bank | | | 19,312,808 |
| | Ithala Bank | | | 40,913 |
| | Financial guarantees | | | |
| | Trade and other receivables | | | |

| | | | |
|-------------|--|--|---|
| | <p>These balances represent the maximum exposure to credit risk.</p> <p>The municipality is exposed to a number of guarantees for the overdraft facilities of Group companies and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note (N#) for additional details.</p> | | |
| 60.2 | Liquidity risk | | |
| | <p>The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.</p> | | |
| | <p>Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.</p> | | |
| | <p>The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.</p> | | |
| | 20x1 | Not later than one month | Later than one month and not later than three months |
| | Gross finance lease obligations | | |
| | Borrowings | | |
| | Trade and other payables | | |
| | Other | | |
| | 20x1 | Later than three months and not later than one year | Later than one year and not later than five years |
| | Gross finance lease obligations | | |
| | Borrowings | | |
| | Trade and other payables | | |
| | Other | | |
| | 20x0 | Not later than one month | Later than one month and not later than three months |
| | Gross finance lease obligations | | |
| | Borrowings | | |
| | Trade and other payables | | |
| | Other | | |
| | 20x0 | Later than three months and not later than one year | Later than one year and not later than five years |
| | Gross finance lease obligations | | |
| | Borrowings | | |
| | Trade and other payables | | |
| | Other | | |
| 60.3 | Interest rate risk | | |
| | <p>As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.</p> <p>OR</p> <p>The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments.</p> | | |
| | <p>At year end, financial instruments exposed to interest rate risk were as follows:</p> <ul style="list-style-type: none"> - Call deposits - Notice deposits - Long term annuity - Development Bank of South Africa loan - ABSA overdraft | | |
| 60.4 | Other price risk | | |
| | <p>Examples include changes in commodity prices</p> | | |
| 47 | RESTATEMENT OF COMPARATIVE INFORMATION | | |
| | <p>Provision for leave and bonuses have been reclassified as accruals. The effect of the restatement is summarised below:</p> | | |
| | Statement of Financial Position: | | |
| | Provisions | | |
| | Accruals - leave | | |
| | Accruals - bonuses | | |
| | | | - |
| 48 | COMPARISON WITH THE BUDGET | | |

ANNEXURE 3: FINANCIAL RECOVERY PLAN

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY

(As informed by 2010/11 Audit report)

EXECUTIVE SUMMARY

Key TAS Objectives

The main objectives of this strategy are;

- To put in place measures to improve the audit report back to an unqualified report by no later than the 2012/13 financial period,
- To put in place measures to improve the audit report to a completely clean bill of accounts by no later than the 2013/14 financial period,
- To put in place clear monitoring mechanisms for the short-term and to strengthen the legislative monitoring mechanisms in medium to long term.
- To stabilize and enhance the Finance Department to be able to discharge their duties effectively

The state of the audit reports and planed targets

The record of the Municipality regarding audit reports for the past five years is as follows;

| Financial Year | AFS Submission date | Nature of Audit Report |
|----------------|---------------------|------------------------|
| 2006/07 | | Disclaimer |
| 2007/08 | | Disclaimer |
| 2008/09 | | Disclaimer |
| 2009/10 | | Qualified |
| 2010/11 | | Adverse |

For the next five years the Municipality is aiming for nothing less than clean audit reports, however looking at the issues that have been with the Municipality of a considerable time more modest and realistic targets are as follows;

| Financial Year | Projected report outcome |
|----------------|---|
| 2011/12 | 60-80% reduction in audit queries |
| 2012/13 | Unqualified audit report with emphasis of matter & other matters |
| 2013/14 | Unqualified report and no emphasis of matter but with other matters |

High Level diagnosis of Problems

The most blaring cause of the problems the Municipality finds itself in is the poor management of both the financial statements preparation and the management of the audit itself.

- i) Management philosophy and operating style do not promote effective control over financial reporting,
- ii) Manual or automated controls are not designed to ensure that the transactions have occurred, are authorized and are completely and accurately processed and
- iii) On-going monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

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(As informed by 2010/11 Audit report)

The Auditor General also found the management of the Municipality severely wanting on the following key areas;

Financial Management

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Implement controls over daily and monthly processing and reconciling of transactions
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Review and monitor compliance with applicable laws and regulations

Leadership

- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls
- Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities
- Develop and monitor the implementation of action plans to address internal control deficiencies

Governance

- Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored
- Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively
- Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations

Strategies to clean up the audit report- Financial Management

Progress to date

Currently the finance department is up to date regarding capturing i.e. up to December. Most of the reconciliations have also been done.

Short term plans

Phase 1- Mid-year financial statements

This entails a fully credible mid-year financial statements prepared and submitted to the Internal Auditors and Audit Committee before the 31st March 2012. These financial statements shall serve to address all envisaged adjustments to the financial statements emanating from the Audit Report. They shall also be accompanied by detailed and accurate supporting schedules and work papers.

Phase 2- Monthly financial statements

Up to the 30th April 2012 the backlog from January to March 2010 will have been covered and all monthly statements issued. The April and May financial statements will be issued within 10 days after the end of each month. These monthly financial statements will be fully compliant, accurate and complete with necessary supporting documentation.

Phase 3- Preparation and review of Annual Financial Statements

Within this new approach management envisages to have completed preparation of Annual Financial Statements by the 31st of July 2012 and submit to the Internal Auditors and the Audit Committee for review.

Mid-term plans

In the mid-term the Municipality is planning on putting mechanisms to enhance the capacity of the entire financial department's staff contingent. These mechanisms will deal with the following key areas;

- Revenue and cash collection enhancement,

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- Implementation of the new accounting system,
- Comprehensive exercise to ensure a fully credible and GRAP compliant Fixed Assets Register
- Develop monitoring mechanisms to ensure compliance with SCM legal framework

Monitoring and Evaluation Mechanisms

The TAS Committee will be established to monitor the short-term implementation of the strategy, up to the end of August. From there going forward the normal reporting structures will be responsible.

With regards to the monitoring of the audit process, as from the beginning of September MANCO will convene on a weekly basis audit meetings to track progress and address concerns. Over and above this a monthly Audit Steering Committee is recommended to address issues in time.

1. Introduction and overview

UMkhanyakude Municipality is Medium Capacity Municipality in KwaZuluNatal. This Turnaround Strategy has been developed in response to a continuing dismal performance of the Municipality, particularly with regards to financial reporting

The table below illustrates the historic trends;

| Financial Year | AFS Submission date | Nature of Audit Report |
|----------------|---------------------|------------------------|
| 2006/07 | | Unqualified |
| 2007/08 | | Disclaimer |
| 2008/09 | | Disclaimer |
| 2009/10 | | Qualified |
| 2010/11 | | Adverse |

This strategy is informed by the Local Government Turnaround Strategy developed by the National Department of Cooperative Government & Traditional Affairs. The aim of the department is to ensure that all Municipalities receive clean audits by year 2014. In line with this the KZN Department of Cooperative Government and Traditional Affairs wants all Municipalities in the province to receive clean audits by year 2013.

The point of departure for the strategy is mainly the Audit Report issued by the Auditor General. The Municipality has based this strategy on the report due to the fact that it offers classic diagnosis of the global problems of the Municipality from the IDP, Performance, Governance up to financial issues.

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY

(As informed by 2010/11 Audit report)

2. Key Turn-around Strategy Objectives

The main objective of putting the TAS in place is not only to respond to the queries of the external auditors, but to put in place a common a clear road map for the Municipality is once again in good financial and accountability standing.

The main objectives of this strategy are;

- To put in place measures to improve the audit report back to an unqualified report by no later than the 2012/13 financial period,
- To put in place measures to improve the audit report to a completely clean bill of accounts by no later than the 2013/14 financial period,
- To put in place clear monitoring mechanisms for the short-term and to strengthen the legislative monitoring mechanisms in medium to long term.
- To stabilize and enhance the Finance Department to be able to discharge their duties effectively

Below is a table, clearly outlining the minimum expectations of the Municipality for the next three years. This builds up to a clean audit report by the 2012/14 financial year.

| Financial Year | Projected report outcome |
|----------------|---|
| 2011/12 | 60-80% reduction in audit queries |
| 2012/13 | Unqualified audit report with emphasis of matter & other matters |
| 2013/14 | Unqualified report and no emphasis of matter but with other matters |

3. High Level diagnosis of the Problems

Auditor General identified four main over-arching root causes of the deficiency in the Internal control environment that lead to the majority of the qualifying matters.

- i) Management philosophy and operating style do not promote effective control over financial reporting,
- ii) Manual or automated controls are not designed to ensure that the transactions have occurred, are authorized and are completely and accurately processed and
- iii) On-going monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Over and above the above four weaknesses that were pervasive through the report the following two causes were also identified;

- i) Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken and
- ii) Pertinent information is not identified and captured in a form and timeframe to support financial reporting

Before looking at a detailed analysis of all the queries it is critical for management to internalize this diagnosis and propose such changes that will tackle Internal Control deficiencies such that most of the queries will not only be resolved but also avoided going forward.

The dashboard report highlights these internal control deficiencies as follows;

**BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND
STRATEGY
(As informed by 2010/11 Audit report)**

| 3 Audit dimensions Fundamentals of internal control | | Financial | Performance objectives | Compliance with laws and regulations |
|---|--|---|---|---|
| | | Assessment | | |
| | LEADERSHIP | | | |
| 1.a | Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity |  |  |  |
| 1.b | Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls |  |  |  |
| 1.c | Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored |  |  |  |
| 1.d | Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities |  |  |  |
| 1.e | Develop and monitor the implementation of action plans to address internal control deficiencies |  |  |  |
| 1.f | Establish an IT governance framework that supports and enables the business, delivers value and improves performance |  |  |  |
| | | | | |
| | FINANCIAL AND PERFORMANCE MANAGEMENT | | | |
| 2.a | Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting |  |  |  |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY

(As informed by 2010/11 Audit report)

| | | | | |
|-------------------|---|---|---|---|
| 2.b | Implement controls over daily and monthly processing and reconciling of transactions |  |  |  |
| 2.c | Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information |  |  |  |
| 2.d | Review and monitor compliance with applicable laws and regulations |  |  |  |
| 2.e | Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information |  |  |  |
| GOVERNANCE | | | | |
| 3.a | Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored |  |  |  |
| 3.b | Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively |  |  |  |
| 3.c | Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations |  |  |  |

4. Remedial actions to issues raised by the Auditor General on the Annual Financial Statements 2010/11

4.1 Financial Management Turnaround

In light of the above high-level diagnosis of the problems by the external auditors, the Municipality has identified a need for a complete change in attitude of managements towards financial reporting. This change will entail a departure from the past practices of reducing the financial reporting exercise to a two months event to a rather full year operation.

It is envisaged that this will in more ways than one provide the accounting officer with adequate time to identify problems in time and address them. This will also ensure that there is ample time for management to apply their minds on prior year raised issues and correct them during the financial year. But more importantly this will shorten the actual time spent on Annual Financial Statements post financial year end to less than a month, hence allowing for focus to timeous financial reporting for the ensuing year.

4.1.1 Record keeping and financial reporting

It is also critical to note that management is already in the process of addressing most of the issues. The capturing of financial information is already up to date (i.e. up to December 2011). This change will be conducted through the following three phases;

Phase 1- Mid-year financial statements

This entails a fully credible mid-year financial statements prepared and submitted to the Internal Auditors and Audit Committee before the 31st March 2012. These financial statements shall serve to address all envisaged adjustments to the financial statements emanating from the Audit Report. They shall also be accompanied by detailed and accurate supporting schedules and work papers.

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Phase 2- Monthly financial statements

Up to the 30th April 2012 the backlog from January to March 2010 will have been covered and all monthly statements issued. The April and May financial statements will be issued within 10 days after the end of each month. These monthly financial statements will be fully compliant, accurate and complete with necessary supporting documentation.

Phase 3- Preparation and review of Annual Financial Statements

Within this new approach management envisages to have completed preparation of Annual Financial Statements by the 31st of July 2012 and submit to the Internal Auditors and the Audit Committee for review.

NB: Starting from July 2012 the monthly reporting initiative will continue on a month to month basis hence re-enforcing this change in attitude.

A detailed point-by point analysis of remedial action to be taken by the Municipality in addressing all the issues as raised by the Auditor General is outlined in Annexure A below.

4.1.2 Accounting system

Management has also identified one weakness being the accounting system that is outdated and cannot assist with some of the current developments. The biggest drawback with the system is that it requires a lot of manual processing and controls. The grant is available and a plan will be put in place to ensure that migration to any new system will take effect as from the 1st July 2012.

4.1.3 Revenue enhancement and credit control

As from the 1st July 2012 a clear credit control and debt collection strategy shall be implemented. A staggered approach to improving collection shall be implemented. This will include the following;

- Ensure credibility of billing information
- Identification of low lying fruits for collection (e.g. government departments)
- Phased approach starting with towns, townships than rural schemes

4.1.4 Property Plant and equipment

One of the prominent qualifying matters was the Property Plant and Equipment. A plan funded by an already available grant will be put in place to eliminate all these queries. The key activities for this task shall include,

- Proper scoping of the entire project,
- Desktop identification based on existing FAR, inspection of valuation rolls, information from Technical Services department,
- Verification and condition assessment of assets,
- Development of Fixed Assets Files,
- Updating of information on the Fixed Assets register and
- Reconciliation of FAR with the General Ledger

4.1.5 Supply Chain Management

Mechanisms will be put in place to ensure compliance to SCM regulations, policy and other relevant legislation. The comprehensive compliance roaster for each and every payment made during the financial year will be developed to assess compliance. From the compliance roaster a monthly report will be tabled to the Executive Committee.

4.2 Leadership

4.2.1 Oversight responsibility

The Auditors raised a number of issues that were caused by lack of oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Clear control sheets will be developed to assist the accounting officer to exercise such oversight.

4.2.2 Policies and procedures

The auditors found that there were no documented policies and/or procedures. A process of policy development or review shall begin. This policy review shall ensure that efficiencies are achieved and deficiencies in internal control are eliminated. The following policies shall be developed or reviewed;

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(As informed by 2010/11 Audit report)

- Credit control policy
- Rates policy
- Asset management policy
- Accounting policies
- Cash management policy
- Subsistence and travelling policy and
- Telephone usage policy

The review process shall be completed by the 15th March 2012 for submission to Portfolio Committee, Executive Committee and Council on the 30th March 2012.

4.2.3 Action plans

This TAS serves as the action plan for putting in place action plans to improve the internal control environment. This will be done through

- The detailed query-by-query remedial plan,
- TAS implementation plan,
- Compliance roaster and
- Procedure manual.

4.3 Governance

The external auditors concluded that the overall governance framework of the municipality is weak and requires improvement. Below are the four key weaknesses that identified by Auditors.

4.3.1 Risk Management

The risk assessment shall be conducted and a risk management plan put in place. The risk assessment shall also cover risk assessment for Supply Chain Management as required by the SCM Regulation.

Management shall also table or review the council's Fraud Prevention Plan. The plan shall clearly outline the following;

- Fraud prevention mechanisms
- Fraud detection procedures and
- Safe passages for whistle blowing and other fraud reporting mechanisms

4.3.2 Internal Audit

An Internal Audit unit is currently non-existent. Management shall table to council a clear proposal to restore the Internal Audit function for the last half of the financial year and put in place mechanism for a sustainable long-term plan for the establishment of the Internal Audit unit.

4.3.3 Audit Committee

The Audit Committee is non-functional. Management shall assess the validity of appointment of the current Audit Committee and appoint new committee in case there is a clear vacuum.

4.3.4 SCOPA

Scopa was established but has been non-existent. The following are the key areas that shall be looked by SCOPA urgently,

- Approval of SCOPA's Terms of Reference,
- Consideration of the Audit and Annual Reports,
- Consideration of reported fruitless, wasteful and irregular expenditure as reported and
- A follow up on all pending or concluded investigations.

5. Monitoring and Evaluation

The overall oversight over the financial reporting is spread between the Municipal Manager, Mayor and the Council, but during the introductory stages of the Turnaround Strategy the TAS committee is proposed to sit on a monthly basis to monitor progress.

The TAS Committee is proposed to consist of;

- Municipal Manager,
- Mayor,
- Chairperson of Audit Committee,
- Internal Auditors,

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- Delegate from the Department of Corporate Governance and
- Delegate from the Provincial Treasury
- The Chief Financial Officer and other Departmental Heads

Proposed key milestones and outputs are tabulated below;

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(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|---|---|-------------------|------------|-----------------------------------|--------------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| (1) Note 26 for property rates does not have a breakdown of the type of properties that are being charged rates. | The Accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. | Review of FAR | <ul style="list-style-type: none"> • Scoping of project • PPE Verification & assessment • Compilation of Immovable Assets Files • Updating of FAR • Updating of GL | April 2012 | | R 784,000 | Fully GRAP compliant FAR | Manager SCM |
| (2) The gain / loss of R 3,004,000 does not appear on the prior year audited financial statements | The Accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls | Thorough investigation of the source of the figure and write-off if necessary | | March 2012 | | | | |
| (3) Information relating to operating, financing and investing activities was missing. The only figures that were disclosed related to purchase of fixed assets. 2. The following prior year amounts are incorrect : <ul style="list-style-type: none"> • Cash paid to suppliers and employees | The Accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. | Review of AFS adjustments to ascertain the reason for the difference. | | March 2012 | | | | Manager Budget and Financial Reporting |

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(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|--|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| (R171,058,855), audited prior year AFS (R167,608,549) | | | | | | | | |
| <ul style="list-style-type: none"> Net increase / decrease in cash equivalents (R2,926,630) audited prior year AFS (R6,376,936) | The Accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. | <i>Review of AFS adjustments to ascertain the reason for the difference.</i> | | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |
| <p>(4) There were no supporting documents received for the following suppliers proving that a competitive bidding process was followed.</p> <p>Nhloasa: R 2 404 795.78 Fastive : R 103 687.1 Yalithi Construction: R 214 083.68 BPF Social development: R 135 240.1 Icon Construction; R 70 589.92</p> | The municipality does not review and monitor compliance with applicable laws and regulations by appropriate means (e.g. checklists) on a regular basis | <i>Supporting documents to be obtained and provided to Auditor General.</i> | | <i>March 2012</i> | | | | <i>Manager SCM</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|--|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| WSSA: R 318 550.89 | | | | | | | | |
| (5) During the audit of predetermine objectives in the annual performance report, the following targets that were not met, did not include sufficient measures to be taken to improve performance. <i>Table not included</i> | The entity has not identified risks to the achievement of performance reporting objectives | <i>IDP documents were sent to the Local Municipalities and were placed together with IDP that LM's advertised. Poor cash flow is being managed and in future this non-compliance issue will be avoided</i> | | <i>March 2012</i> | | | | <i>PMS Manager</i> |
| (6) Based on the audit work performed the following was not disclosed as commitments. | Financial Management -Does not prepare complete financial reports that are supported and evidenced by reliable information. | <i>Disclosure of commitments in the AFS.</i> | | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |

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(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|---|--------------------------|-------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| (7) .37 An entity shall choose either the cost model in paragraph .38 or the revaluation model in paragraph .39 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. | Financial Management - not implementing proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting. - not reviewing and monitoring compliance with GRAP 17 | <i>Review of the FAR</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |
| Cost model .38 After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. | Financial Management - not implementing proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting. - not reviewing and monitoring compliance with GRAP 17 | <i>Review of the FAR</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |
| 39 After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, | Financial Management - not implementing proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting. | <i>Review of the FAR</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|--------------------------|-------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date | - not reviewing and monitoring compliance with GRAP 17 | | | | | | | |
| 58 The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset. | Financial Management - not implementing proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting. - not reviewing and monitoring compliance with GRAP 17 | <i>Review of the FAR</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |
| After Inspection of the Statement of Financial Performance for | | | | | | | | <i>Manager SCM</i> |

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| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|--|-------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| the period ended 30 June 2011 it was found that depreciation had not been charged for 2010/2011 financial year. | | | | | | | | |
| (8) Upon enquiry it was found that there was no proof that management assessed fixed assets for indication of impairment | Financial Management -Staff do not understand GRAP -Impairment tests are not carried out in accordance with GRAP 21 | <i>Review of the FAR including performing impairment tests</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |
| (9) As per enquiry it was found there is no evidence that management has assessed the residual value, useful life and depreciation method of fixed assets for the period ended 30 June 2011. | Financial Management -Staff do not understand GRAP -The useful lives and residual values used are not assessed in accordance with GRAP 17 - The depreciation method used is not assessed in accordance with GRAP 17. | <i>Review of the FAR</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |
| (10) As per inspection of the financial statements as well as enquiry from management it was found that there was no revaluation performed on land | Financial Management -Staff do not understand or cannot apply GRAP 17 | <i>Revaluation and reassessment of all assets will be performed thereby reviewing the FAR.</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |

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| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|---|-------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| and buildings by the municipality. | | | | | | | | |
| (11) On inspection of the Fixed asset register it was found that there is no differentiation between the depreciation charge for the current year and accumulated depreciation. . | Financial Management -Does not prepare complete financial reports that are supported and evidenced by reliable information. | <i>Detailed review of the asset mgt system will be done to improve understanding of the system and the depreciation rates will be disclosed the in AFS.</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |
| (12) Based on the audit work performed the following difference was found between the general ledger and the Asset register. This results in the fixed asset being overstated by R 53 852 433. This could result in an audit qualification if adjustments is not made as the difference is quantitatively material | Financial management - does not implement proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial reporting | <i>Review of the FAR</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |

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| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|---|--|--|--------------------------|------------|-----------------------------------|-----------------------|---------------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| <p>Based on audit work performed the following assets were included on the asset register however it could not be ascertained whether they belong to the Municipality.</p> <p>This result in land totalling R 29 075 045 being included in the Asset Register that possibly does not belong to the municipality. This could result in an audit qualification as the amounts are material.</p> <p><i>Table not included</i></p> | <p>Financial management - does not implement proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial reporting.</p> | <p><i>The title deeds and any other proof of ownership will be provided for all the assets belonging to the municipality and those that do not belong to the municipality will be adjusted in the FAR.</i></p> | <p><i>Updating the FAR and the GL.</i></p> | <p><i>April 2012</i></p> | | | | <p><i>Manager SCM</i></p> |
| <p>On inspection of the Financial Statements it was found that there was rentals earned to an amount of R 167 446. However the properties for which these rentals</p> | <p>Financial Management -does not ensure compliance with GRAP standards</p> | <p><i>Investigate if these properties meet the definition of investment properties. (Check Grap 16 for the correct par. To</i></p> | | <p><i>March 2012</i></p> | | | | <p><i>Manager SCM</i></p> |

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| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|---|-------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| were earned has not been disclosed.P.1.1 | | <i>support)</i> | | | | | | |
| Based on the audit work performed it was found that although Infrastructure assets are componentised as far as possible, assets are valued at Zero. As the assets are still in use this implies the useful life was estimated incorrectly and changed. <i>Table not included</i> | Financial Management -Staff do not understand GRAP -The useful lives and residual values used are not assessed in accordance with GRAP 17 - The depreciation method used is not assessed in accordance with GRAP 17. | <i>Processes will be put in place to ensure that assets impairment tests are performed including the assessment of depreciation method.</i> | <i>Updating the FAR and the GL.</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |
| Based on audit work performed the following assets identified during the asset verification process was not included on the fixed asset register <i>Table not included</i> | Financial Management - does not implement proper record keeping in a timely manner to ensure complete reports to support financial reporting | <i>Asset verification and review of FAR</i> | <i>Updating the FAR and the GL</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |

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| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|--|--|--------------------------|------------|-----------------------------------|-----------------------|---------------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| <p>Based on the information received the gain or loss on fixed assets cannot be substantiated due to the following reasons</p> <p>i) The net book value of the disposed asset cannot be calculated as the municipality has not made disclosure on the Annual Financial Statements regarding the useful life of assets disposed of.</p> <p>ii) There were no supporting documents relating to proceeds received on sale of assets.</p> <p>This results in a limitation of scope relating to sale of assets as the amount disclosed cannot be substantiated. The total historic cost of assets disposed amounted to R 181 756 416</p> | <p>Financial Management - does not implement proper record keeping in a timely manner to ensure complete reports to support financial reporting.</p> <p>Financial Management - does not implement proper record keeping in a timely manner to ensure complete reports to support financial reporting.</p> <p>Financial Management -Does not prepare complete financial reports that are supported and evidenced by reliable information</p> | <p><i>Review of the FAR</i></p> <p><i>Supporting documents in respect of proceeds on sale of assets to be provided</i></p> | <p><i>Updating the FAR and the GL.</i></p> | <p><i>April 2012</i></p> | | | | <p><i>Manager SCM</i></p> |

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| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|--|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| Based on the audit work performed invoices amounting to R 3 242 183.56 was not recorded. Please see Annexure E2 for details of transactions making up the amount. Due to the nature of the misstatement, the estimated error cannot be populated. The onus is on the municipality to review the entire population and identify additional errors. P.1.1 This will result in Bulk purchases being understated by R 3 242 183.56 | Financial Management - does not implement proper record keeping in a timely manner to ensure complete reports to support financial reporting. Financial Management -Does not prepare complete financial reports that are supported and evidenced by reliable information | <i>All supporting documents have been obtained and an adjusting journal prepared, the affected account and the AFS will be adjusted.</i> | <i>Updating the GL.</i> | <i>March 2012</i> | | | | <i>Accountant Expenditure Manager Budget and Financial Reporting</i> |
| Trade and other Payables - Amount as per trial balance disagrees to Amounts as per AFS Table not included | Financial Management -Does not prepare complete financial reports that are supported and evidenced by reliable information | <i>Differences will be investigated and AFS will be adjusted.</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Accountant Expenditure Manager Budget and Financial Reporting</i> |

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| AUDIT 2011 / 2012 FY | | | | | | | | |
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| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| Based on the audit work performed, it was found that there is no creditors listing to support the amount of R 38 082 681.40 disclosed as trade creditors. Hence there is no reconciliation performed between the creditors sub-ledger and the creditors control account.P.1.1 | Financial management - does not implement proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial reporting. | <i>Supporting documents will be provided.</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Accountant Expenditure</i> <i>Manager Budget and Financial Reporting</i> |
| During the audit of the predetermined objectives, it was noted that the budget was tabled and approved by council on 31 May 2010 and the service delivery and budget implementation plan was tabled and approved on 29 July 2010. As a result the municipality has not complied with the requirements of section 53(1)(c)(ii) of the Municipal Finance Management Act. | The municipality does not identify risks to the achievement of reporting objectives | <i>The municipality will ensure that the SDBIP is approved on legislated time.</i> | <i>Compliance with the legislation requirements.</i> | <i>March 2012</i> | | | | <i>PMS Manager</i> |

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| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| For the selected programmes KPA 2 Basic Service Delivery and Infrastructure Development, KPA 4 Municipal Transformation and Institutional Development and KPA 5 Financial Viability and Financial Management, valid performance management processes and systems that produce actual performance against the planned indicators and targets do not exist. In addition the targets relating to KPA 5 are not specific. <i>Table not included</i> | The entity has not identified risks to the achievement of performance reporting objectives | <i>The Internal Auditor will be constantly consulted during the development of the PMS in order to ensure that SMART Principles are adhered to. Department will be encouraged not to leave out empty spaces when they are developing their targets</i> | Strategic Planning to inform 2012/2013 PMS | May 2012 | None | | | <i>PMS Manager</i> |
| The debtors listing included an amount of R713,897.88 which is prepayment by | Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is | <i>Amount will be re-allocated to reflect the correct balances</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager Income</i> |

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|---|--|---|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| consumers thus understating accounts receivables and accounts payables in the financial statements. | accessible and available to support financial reporting | | | | | | | |
| Accounts included in the accounts receivables balance at year end for debtors that do not exist, on further enquiry from management was noted that these are in actual fact double billing of accounts by the municipality. The following table provides examples from the sample selected <i>Table not included</i> | Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting | <i>An item has been submitted to Council where a request for a write off was recommended.</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager Income</i> |
| Amount of R47,450.88 included as councillors and staff account in | Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and | <i>An item has been submitted to Council where a request for a write off was</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |

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AUDIT 2011 / 2012 FY

| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
|---|--|---|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| receivables in the financial statements, it was noted that this amount was recovered in the prior years thus overstating accounts receivables | accurate information is accessible and available to support financial reporting | <i>recommended.</i> | | | | | | |
| Amount of R3,805,917.14 that according to management was written off and should not have been included in the financial statements thus overstating accounts receivables | Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting | <i>An item has been submitted to Council where a request for a write off was recommended.</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |
| Based on the audit work performed the for the following contracts three quotations were not received and there was no proof of it being recorded quarterly to the accounting officer. | Financial Management - does not ensure compliance with laws and regulations | <i>The deviation register has been updated and an item submitted to Council. Will be disclosed in the AFS as irregular expenditure.</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager SCM</i> |

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| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|--|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| Onsite computers: R 7 410 Biz Afrika: R 4 520 Biz Afrika: R 4 840 | | | | | | | | |
| Based on the audit work performed there was no evidence that the following deviations had been reported to council. On inspection of the Annual Financial Statements there were disclosures made for the following deviations. <i>Table not included</i> | The municipality does not review and monitor compliance with applicable laws and regulations by appropriate means (e.g. checklists) on a regular basis | <i>The deviation register has been updated and an item submitted to Council. Will be disclosed in the AFS as irregular expenditure.</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager SCM</i> |
| Based on audit work performed the following winning suppliers did not supply the required documents as per Section 13(a) of the SCM regulations. Browns Cash and Carry: R 21 684 | The municipality does not review and monitor compliance with applicable laws and regulations by appropriate means (e.g. checklists) on a regular basis. | <i>The SCM will ensure it complies with s 13 A of the regulation by ensuring suppliers are requested to include all the required information in quotation. The expenses will</i> | <i>Updated AFS</i> | <i>March 2012</i> | | | | <i>Manager SCM</i> |

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|---|---|--|--|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| Browns Cash and Carry: R 22 424.09 Browns Cash and Carry: R 20 972.37 | | <i>be disclosed as irregular expenditure.</i> | | | | | | |
| During the audit of Investments it was noted that interest earned as per the Investment Register differs from the figure as per the financial statements as follows: <i>Table not included</i> | Inadequate Financial Management, although the investment registers are reviewed, they are not reconciled to the amounts as per the Financial Statements | <i>Thorough review of the investment account and adjustments in the AFS.</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |
| On inspection of the MIG register it was found that the following projects had Debit balances This results in Unspent conditional grants being understated by R 5 | Financial Management -does not keep proper records to support financial information | <i>Debit balances will be investigated and adjusted.</i> | <i>Updating the AFS and the MIG register</i> | <i>March 2012</i> | | | | <i>Vusi Myeni</i> |

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|--|--|-------------------------------------|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| 404 602.20 <i>Table not included</i> | | | | | | | | |
| Upon Inspection of the Annual Financial statements and the trial balance it was found that general expenses amounting to R 19 840 587.34 was incorrectly classified as Grants and subsidies paid. Please see Annexure E1 for a list of accounts that make up the R 19 840 587.34 | Governance The audit committee does not review the financial statements reliability, completeness and accuracy before submission thereof to the auditors. | <i>Re-allocation of expenditure</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Accountant Expenditure</i> <i>Manager Budget and Financial Reporting</i> |
| Management has not provided supporting documents in respect of corrections made to prior year qualification items 1. Accumulated surplus relating to prior year expenses totalling R 3 225 | Governance The audit committee does not ensure an action plan is implemented to ensure all audit findings are cleared | <i>To be investigated</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | |

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|---|---|---------------------------|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| 000 2.Reversal of electricity sales amounting R 1 909 000 3.Automatic transfers incorrectly processed amounting to R 1 455 000 This will result in Accumulated surplus being misstated and would lead to an audit qualification | | | | | | | | |
| Upon Inspection of the adjusted Annual Financial statements received the following changes were unexplained and there were no supporting documents made available This will result in the financial statements being misstated and could lead to an audit qualification. | Financial Management Does not ensure that all adjustments or changes are evidenced by supporting documents. | <i>To be investigated</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |

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| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| Table not included | | | | | | | | |
| Trade receivables have been classified as loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. The prior year allowance for doubtful debts amounting to R86,675,789 was used, this figure would be inaccurate as there are debtors with outstanding balances for greater than 90 days at year ended 30 June 2011, which would not have been accounted for in the calculation of the prior year allowance. | Financial Management -Staff do not understand IAS 39 -The provision for doubtful debts is not calculated in accordance with IAS 39 | <i>To be investigated</i> | <i>Update the AFS</i> | <i>March 2012</i> | | | | <i>Manager Income</i> |

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|---|--|---|------------------------------------|--------------------------|------------|-----------------------------------|-----------------------|--|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| <i>Table not included</i> | | | | | | | | |
| <p>The following expenditure has been recognised as being fruitless and wasteful expenditure, however there was no disclosure made in the Annual Financial Statements. An additional Amount of R 1036 000 was identified as Interest charged on late payments.</p> <p>The onus is on the municipality to review the entire population and identify additional errors</p> <p><i>Table not included</i></p> | <p>Financial Management -does not review and monitor compliance with applicable laws and regulations</p> | <p><i>AFS will be reviewed and adjusted</i></p> | <p><i>Update the AFS</i></p> | <p><i>March 2012</i></p> | | | | <p><i>Manager Budget and Financial Reporting</i></p> |
| <p>Upon review of the accounting policies it was discovered that:</p> <ul style="list-style-type: none"> Basis of | <p>Leadership</p> <p>The Accounting officer does not exercise oversight responsibility regarding financial and performance reporting</p> | <p><i>Review of accounting policies</i></p> | <p><i>Updated AFS</i></p> | <p><i>March 2012</i></p> | | | | <p><i>Corporate Services</i></p> |

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AUDIT 2011 / 2012 FY

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|---|--|---|--|--------------------------|------------|-----------------------------------|-----------------------|----------------------------------|
| <p>presentation –the standards of GRAP applied have not been listed</p> <ul style="list-style-type: none"> There are accounting policies included that do not relate to the entity e.g., investment property, biological assets, non-current assets held for sale <p>The financial statements were not reviewed and monitored for compliance with laws and regulations</p> | <p>and compliance and related internal controls</p> | | | | | | | |
| <p>There are no processes/ procedures in place for financial and non-financial reporting</p> | <p>Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.</p> | <p><i>Submission of procedure to Council for approval</i></p> | <p><i>Updating procedures and policies</i></p> | <p><i>March 2012</i></p> | | | | <p><i>Corporate Services</i></p> |

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| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
|--|---|---|------------------------------------|--------------------------|------------|-----------------------------------|-----------------------|---------------------------------|
| <p>As per Enquiry with Mr.Mabika it was found that there is no process in place to identify Unauthorised, Irregular, fruitless and wasteful expenditure</p> <p>Furthermore, the following expenditure was identified by the auditors as being fruitless and wasteful expenditure:</p> <p>Table not included</p> | <p>Processes are not in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure</p> | <p><i>Constant review of expenditure and disclosure of such expenditure</i></p> | <p><i>Updated AFS</i></p> | <p><i>March 2012</i></p> | | | | |
| <p>The municipality's internal audit did not complete a risk assessment.</p> <p>This is due to management not - understanding the need for a risk assessment - selecting an internal audit that</p> | <p>Governance -not implementing appropriate risk management activities to ensure that regular risk assessments are conducted and that a risk strategy to address the risks is developed and monitored</p> | <p><i>Ensure the internal audit performs the risk assessment before internal audit is done.</i></p> | | <p><i>March 2012</i></p> | | | | <p><i>Municipal Manager</i></p> |

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| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| would fulfil all the requirements of The MFMA. | | | | | | | | |
| It was noted that the municipality had long outstanding accounts from organ of states and that notification was not sent to National Treasury and thus non-compliance with the MFMA. The following is an example of such accounts that had balances outstanding for over 30 days as at year end: <i>Table not included</i> | The accounting officer does not exercise oversight responsibility regarding compliance with related laws and regulations | <i>Reports to be submitted to National Treasury for outstanding accounts over 90 days.</i> | <i>Improving compliance with the MFMA.</i> | <i>March 2012</i> | | | | <i>Manager Income</i> |
| On Enquiry from SCM management there is no disciplinary policies and procedures in place. | Leadership - does not ensure compliance with laws and regulations affecting the municipality. | | | <i>March 2012</i> | | | | <i>Manager SCM</i> |
| Based on the audit work performed the following suppliers did not comply | The municipality does not review and monitor compliance with applicable laws and | <i>This section will be included in the request for</i> | <i>Improving the SCM compliance</i> | <i>March 2012</i> | | | | <i>Manager SCM</i> |

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| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| with regulation 13(c) of the Supply Management Policy <i>Table not included</i> | regulations by appropriate means (e.g. checklists) on a regular basis. | <i>quotation forms as it is only provided for in tender processes.</i> | | | | | | |
| On enquiry from Supply Chain Management personal it was ascertained that although a list of suppliers is kept, the list is not compile din terms of type of service or commodity. | There are no appropriate means (e.g. checklists) for monitoring compliance on a regular basis. | <i>The Municipality is an a process of moving to the new system as the current system does not provide for such item</i> | <i>Obtain the compatible system</i> | <i>March 2012</i> | | | | <i>Manager SCM</i> |
| Management does not have documented policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA, as detailed under the 'reporting on compliance with laws and regulations section' | Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation. | <i>Policies to be approved in the current year.</i> | <i>Approved the policies</i> | <i>March 2012</i> | | | | <i>Corporate Services</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|---|--|-------------------|------------|-----------------------------------|-----------------------|---------------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| of this report. The following policies are not in place: 1. Risk management strategy 2. Skills retention plan 3. Fraud hotline 4. Fraud prevention planAS2.j | | | | | | | | |
| Positions in senior management were vacant for more than 12 months, being: 1. Chief Financial Officer 2. Manager: Income 3. Manager: Grants and Expenditure 4. Director: Community Services 5. Director: Water Services 6. Director: Legal Services Negative impact on service delivery | Implementation of effective HR management is not in place to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Vacant key positions have not been filled for a long period of time | <i>The municipality is undergoing a strategic review after which a new organogram will be put in place. Vacant posts will be filled as from the 1st of July 2012.</i> | <i>Filling vacant critical positions</i> | <i>March 2012</i> | | | | <i>Corporate Services</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|---|---|---|---|------------|-----------------------------------|-----------------------|--------------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| The audit committee did not function throughout the year. Members were only appointed two months before year-end. Consequently, the committee did not approve the internal audit plan and has not exercised any oversight of the implementation of the matters reported by the internal audit function | Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning | <i>The municipality is under the process of establishing the Audit Committee.</i> | <ul style="list-style-type: none"> • <i>Advertise</i> • <i>Conduct interviews</i> • <i>1st Aud. Comm. Meeting</i> | <i>26 Jan 2012</i> <i>9 Feb 2012</i> <i>23 Feb 2012</i> | | | | <i>Municipal Manager</i> |
| T An approved organisational structure is not in place Lack of communication between lines of reporting | The entity's organisational structure does not address areas of responsibility and does not establish lines of reporting in order to support effective internal control over financial reporting. | <i>The municipality is going through a process of an organizational structure review.</i> | <ul style="list-style-type: none"> • <i>Management strategic plan</i> • <i>Councillor Strategic Plan</i> • <i>Conclusion of review</i> | <i>27 Jan 2012</i> <i>1 Feb 2012</i> <i>31 March 2012</i> | | | | <i>Municipal Manager</i> |
| Although the municipality has an internal audit division, it is not | Ongoing monitoring and supervision are not undertaken to enable management to | <i>The municipality will be employing an internal audit</i> | <ul style="list-style-type: none"> • <i>Request of quotations</i> • <i>Appointment of</i> | <i>1 Feb 2012</i> <i>15 Feb 2012</i> | | | | <i>Municipal Manager</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|--|--|---|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| adequate for the purposes of the audit for the reason that it work i.e. draft internal audit reports, does not get reviewed by management and action plan taken resulting in a fruitless exercise | determine whether internal control over financial reporting is present and functioning | <i>manager as from 1st July 2012 and the function will be outsourced for the period ending June 2012.</i> | Internal Auditor <ul style="list-style-type: none"> • Risk Assessment • Approval of internal audit plan • 1st Internal Audit report • 2nd internal audit report • 3rd internal audit report • 4th internal audit report | 23 Feb 2012 31 March 2012 30 April 2012 31 May 2012 30 June 2012 | | | | |
| Communication of findings were submitted to the Accounting Officer on 05 October 2011 and 12 October 2011, respectively, however no response has been received by the auditors. | Financial management Accounting Officer does not implement proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial reporting | <i>A clear audit management plan controlled by the Chief Financial Officer will be developed.</i> | <ul style="list-style-type: none"> • AFS readiness assessment • Audit Management Plan. | 31 May 2012 30 June 2012 | | | | |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|---|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| The Accounting Officer has failed to submit responses within the set timelines. This is a contravention of the terms of audit engagement and impacts the statutory reporting deadlines. | | | | | | | | |
| As per enquiry from asset management, fixed assets are not insured. | Financial Management -does not ensure compliance with laws and regulations | <i>Insurance company has been appointed</i> | | <i>March 2012</i> | | | | <i>Manager SCM</i> |
| On inspection of the trial balance and Annual Financial Statements, it was found that Intangible assets (relating to computer software) have been included as Fixed assets | Financial Management - does not keep proper records to support financial reporting | <i>FAR to be reviewed and Intangibles to be re-allocated.</i> | <i>Updating the AFS</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|--|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| This results in Fixed assets being overstated by R 47 855 and Intangible assets being understated by R 47 855. <i>Table not included</i> | | | | | | | | |
| The amount as per the bank reconciliation at year end, with respect to account number 7881085762 held with Nedbank, differs from the amount reflected on the confirmation received by the bank by an amount of R633,883.56.P.1.1 This results in the bank account being overstated by R633,883.56. | Financial Management - does not agree the amount per the bank reconciliation to the amount per the general ledger and follow up on any differences | <i>Updated bank statement requested from the bank for confirmation</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |
| During the audit of Investments, it was noted that a summary of all investments is not disclosed in the financial statements. | Inadequate financial management. | <i>AFS were adjusted and will ensure full disclosure going forward</i> | <i>Updating AFS</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

AUDIT 2011 / 2012 FY

| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
|--|--|--|---------------------------------------|--------------------------|------------|-----------------------------------|-----------------------|---------------------------|
| <p>The financial statements are not adequately reviewed for completeness of presentation and disclosures prior to submission for audit.</p> | | | | | | | | |
| <p>On inspection of the fixed asset register it was found that the useful lives of assets is not disclosed.</p> <p>This results in lack of information being available to audit depreciation charge for the year. Hence sufficient and appropriate evidence regarding the valuation of fixed assets will be unobtainable and could result in a</p> | <p>Financial Management -Does not prepare complete financial reports that are supported and evidenced by reliable information.</p> | <p><i>FAR will be reviewed to ensure full disclosure</i></p> | <p><i>Updating FAR and the GL</i></p> | <p><i>April 2012</i></p> | | | | <p><i>Manager SCM</i></p> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|--|----------------------|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| limitation of scope. | | | | | | | | |
| On inspection of the asset register the following information had not been disclosed. (i) Method of Financing (ii) Depreciation method and rate used (iii) Depreciation charge for each completed year of use (iv) Impairment expense for the year (v) Accumulated Impairment for each class of assets (vi) Details of any write-down or write-up in carrying value (vii) Amount received for disposal of fixed asset and resultant profit or loss on the disposal (viii) Physical condition of the | Financial management - does not implement proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial reporting. | <i>Review of FAR</i> | <i>Updating the FAR and the GL</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|--|------------------------------------|--------------------------|------------|-----------------------------------|-----------------------|--|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| asset. | | | | | | | | |
| <p>Financial management - does not implement proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial reporting.</p> <p>This is due to management - not inspecting supporting documents - not agreeing details from supporting documents to cheque voucher to ensure VAT is correctly treated before authorizing the voucher.</p> <p>This will result in</p> | <p>Financial management -not implementing proper and record keeping in a timely manner to ensure that relevant and accurate information is available to support financial and performance reporting</p> | <p><i>A journal prepared and the AFS to be adjusted.</i></p> | <p><i>Updating the AFS</i></p> | <p><i>March 2012</i></p> | | | | <p><i>Manager Budget and Financial Reporting</i></p> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|---|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| Expenditure being overstated by R 101 302.48 and Input VAT being understated by R 101 302.48 <i>Table not included</i> | | | | | | | | |
| The following goods/services were received in the prior period resulting in a decrease in economic benefits in the form of incurrence's of liabilities (Raising of creditors) in the prior period. However theses expenses listed below has been included in the general ledger for the 2010/2011 financial year. This is due to Management not - understanding the accrual basis of accounting and/or - failing to review supporting documents before authorising journals. | This is due mainly to Financial management not -Implementing proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial and performance reporting. | <i>A journal prepared and the AFS to be adjusted.</i> | <i>Updating the AFS</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|---|---|--------------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| <p>This results in expenditure being overstated by R 577 755.75 and Input VAT being overstated by R 39 984.10</p> <p><i>Table not included</i></p> | | | | | | | | |
| <p>The following expenditure incurred had no invoices</p> <p>This is due to management - not inspecting supporting documents prior to authorising cheque vouchers/journals.</p> <p>This results in expenditure being overstated by R 98 763.75</p> | <p>Financial management - not implementing proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial and performance reporting</p> | <p><i>All the required supporting documents to be provided</i></p> | <p><i>Updating the AFS</i></p> | <p><i>March 2012</i></p> | | | | <p><i>Accountant Expenditure</i></p> <p><i>Manager Budget and Financial Reporting</i></p> |
| <p>The entity has no process in place to ensure that creditors are paid</p> | <p>Financial Management - Does not implement controls over daily and monthly processing and</p> | <p><i>Cashflow to be improved so that creditors can be paid</i></p> | <p><i>Review of cash management</i></p> | <p><i>March 2012</i></p> | | | | |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|---|--|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| within 30 days. | reconciling of transactions | <i>on time</i> | | | | | | |
| Based on a sample of 30 transactions the following creditors have not been paid within 30 days of receipt of invoice. <i>Table not included</i> | Financial Management does not -Review and monitor compliance with applicable laws and regulations | <i>Cashflow to be improved so that creditors can be paid on time</i> | <i>Review of cash management</i> | <i>March 2012</i> | | | | |
| During the audit of predetermined objectives, it was noted that the municipality did not advertise its final draft IDP for community comment, due to cash flow problems that were being experienced by the municipality at the time. The municipality also did not make known its key performance indicators to the general public. | Risk Assessment: Management has not identified full compliance with fundamental legislation, as a reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable reporting | <i>IDP to be advertised in 2012.</i> | <i>Cash flow management</i> | <i>March 2012</i> | | | | <i>PMS Manager</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|---|--|--|-------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| As a result, there has been no community participation in the final IDP adopted for 2010/2011 or awareness of the key indicators contained therein | | | | | | | | |
| As per inspection of the performance management framework it was noted that there is no provision for policies and procedures to address the underperformance relating to indicators and targets. This was further apparent in the annual performance report where the "blockages" and "corrective measures" identified were not | The municipality has not identified this problem as a risk to the achievement of its reporting objectives | <i>The PMS Framework will be revised in order to cater for corrective measures</i> | <i>Draft PMS Framework has already been developed and includes corrective measures</i> | June 2012 | | | | <i>PMS Manager</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|--|---|------------------------------------|-------------|------------|-----------------------------------|-----------------------|---------------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| always sufficient in order to rectify the underperformance | | | | | | | | |
| As per inspection of the Integrated Development Plan 2010/2011 (IDP) for the municipality, it was noted that the approved document did not contain any input indicators or outcome indicators as required by the legislation The municipality's IDP will not be aligned with National priorities if they do not include ALL indicators that are legislatively required | Pertinent legislative requirements are not identified, captured and used at all levels of the municipality to support the achievement of reporting objectives. | <i>This matter will be addressed during the development of 2012/2013 PMS</i> | | June 2012 | | | | <i>PMS Manager</i> |

**BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)**

AUDIT 2011 / 2012 FY

| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
|--|--|--|--|-------------|------------|-----------------------------------|-----------------------|--------------------|
| <p>Below is a table of those indicators and targets.</p> <p>As a result there is no available supporting documentation for these indicators</p> <p><i>Table not included</i></p> | | <i>This matter will be addressed during the development of 2012/2013 PMS</i> | <i>Alignment of targets will be improved during 2012/2013 FY</i> | | | | | <i>PMS Manager</i> |
| <p>A comparison of the Integrated Development Plan (IDP) and Service Delivery Budget Implementation Plan (SDBIP) revealed that the following indicators and targets in the IDP were different or missing from the SDBIP</p> <p>As a result the approved indicators as per the IDP were not focused</p> | The entity has not identified risks to the achievement of performance reporting objectives | <i>Alignment of the IDP and SDBIP will be improved during 2012/2013 FY</i> | | June 2012 | | | | <i>PMS Manager</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|--|---|------------------------------------|------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| on to be achieved during the financial year <i>Table not included</i> | | | | | | | | |
| During the audit of the predetermined objectives, it was noted that the annual performance report was not consistent with the approved indicators and targets in the Integrated Development Plan (IDP). Below is a list of indicators and targets from the annual performance report as compared to the IDP. As a result, the indicators and targets approved by council in the IDP were not reported on. <i>Table not included</i> | The entity has not identified risks to the achievement of performance reporting objectives | <i>Alignment of IDP and Performance Report will be improved during 2012/2013 FY</i> | | <i>June 2012</i> | | | | <i>PMS Manager</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

AUDIT 2011 / 2012 FY

| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
|---|---|--|---|--------------------------|------------|-----------------------------------|-----------------------|------------------------------|
| <p>the municipality does have a credit control and debt collection policy that was first approved by council in a meeting held on 29 may 2009 and later amended and approved on 19 April 2011. The audit team noted that the municipality have not implemented debt collection policy and has not taken steps to collect the monies due to the municipality by the consumers which has resulted in consumer accounts receivables increasing by R27,822,755.00 compared to the prior year. Loss of income by the municipality due to irrecoverable debtors</p> | <p>Management does not review and monitor compliance with the approved policies including applicable laws and regulations</p> | <p><i>Credit Controller to be appointed to ensure compliance</i></p> | <p><i>Appointment of a credit controller to put in place a clear revenue enhancement strategy to implement thereto.</i></p> | <p><i>March 2012</i></p> | | | | <p><i>Manager Income</i></p> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
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| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|--|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|-----------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| It was noted that the municipality issued two loans in the prior years. (a) the loan was issued to Umhlabuyalingana Municipality and there have not been any payments made by the debtor and therefore breaching the contract that was entered into, the municipality has not made efforts to recover the debtor. (b) A loan was issued to the former mayor and there is no signed agreement with terms and conditions of the loan and therefore validity and existence of the debtor is uncertain. Loss of income by the municipality | The Accounting Officer does not exercise oversight responsibility regarding compliance with related laws and regulations | <i>a)Payment has been received from Umhlabuyalingana and an item has been submitted to council in this regard, to request Council to write off interest portion.</i> | <i>Updated AFS</i> | <i>March 2012</i> | | | | |
| During the audit of Revenue it was noted that the Municipality has not | Inadequate Financial Management | To be implemented in 2011/2012 | | <i>March 2012</i> | | | | <i>Manager Income</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|---|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|-----------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| managed and accounted separately for their services as a water service provider as this has been grouped with other services in the Financial Statements | | | | | | | | |
| <p>During the audit of Revenue it was noted that distribution losses are not monitored on a month to month basis</p> <p>Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.</p> <p>Distribution losses based on past</p> | Inadequate Financial Management - no monitoring procedures in place to identify and record distribution losses | <i>Appointment of a credit controller who will also monitor the monthly readings for possible losses.</i> | | <i>March 2012</i> | | | | <i>Manager Income</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
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| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|---|------------------------------------|--------------------------|------------|-----------------------------------|-----------------------|--|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| performance should be taken into account when setting water and electricity tariffs so as to avoid/minimise unauthorised, irregular, fruitless and wasteful expenditure. | | | | | | | | |
| <p>During the audit of Cash and Bank it was noted that the Municipality submitted banking details in respect of their Primary account only. In addition, the following accounts were opened in the 2010/2011 year, details of which were not submitted:</p> <p>Table not included</p> | Management should ensure that details required as per the MFMA, should be timely submitted and that all submissions required, are made | <i>This has been rectified, all accounts have been submitted</i> | | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|---|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| On in inspection of the Financial statements it was found that the Municipality did not choose between either the fair value model or the cost model | Financial Management -does not ensure compliance with GRAP standards | <i>The municipality does not own any investment properties (To check the relevant par from GRAP 16)</i> | <i>Updating the FAR and the GL</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |
| After inspecting the lease agreements for the following lessors: -Avis -Nashua Zululand -Konica Minolta Fintech it was found that lease payments were not recognised according to GRAP13.40 instead all payments were expensed in the Statement of Financial Performance | Financial Management does not Prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information | <i>Lease agreements to be reviewed</i> | <i>Updating the FAR and the GL</i> | <i>April 2012</i> | | | | <i>Manager SCM</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
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| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|--|--|-------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---------------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| <p>During the audit of Revenue, it was noted that the Government Gazette detailing the authorisation for the Municipality to levy property rates, was not made available for inspection.</p> <p>The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations.</p> <p>Collection of Revenue which the Municipality is not entitled to: Current year: R 963,145 Prior Year: R 744,448</p> | Inadequate Financial management. | <i>To be investigated and the government gazette be made available</i> | | <i>March 2012</i> | | | | <i>Manager Income</i> |
| No employment contract in file for the following employees | Leadership Implementation of effective HR management has not been done to ensure | <i>Contracts to be obtained</i> | <i>Ensure proper record keeping</i> | <i>March 2012</i> | | | | <i>Corporate Services</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

AUDIT 2011 / 2012 FY

| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
|--|--|---------------------------|------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---------------------------|
| Lack of proof of agreement of duties and responsibilities between the employer and the employee <i>Table not included</i> | that adequate and sufficiently skilled resources are in place and that performance is monitored | | | | | | | |
| Invalid contract of employment <i>Table not included</i> | Leadership Implementation of effective HR management is not being done to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored | <i>To be investigated</i> | | <i>March 2012</i> | | | | <i>Corporate Services</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

AUDIT 2011 / 2012 FY

| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
|--|---|---|------------------------------------|--------------------------|------------|-----------------------------------|-----------------------|----------------------------------|
| <p>Notice of termination of employment was not given by the following employee:</p> <p>Employee not fulfilling his duties and responsibilities within the period of notice.</p> <p><i>Table not included</i></p> | <p>Reviewing and monitoring of compliance with applicable laws and regulations has not been done. The municipality does not communicate to employees that upon the termination of services, a letter of notice needs to be submitted.</p> | <p><i>To be investigated</i></p> | | <p><i>March 2012</i></p> | | | | <p><i>Corporate Services</i></p> |
| <p>Notice of two weeks was given by the following employee who was employed for a period of more than a year:</p> <p><i>Table not included</i></p> | <p>Reviewing and monitoring of compliance with applicable laws and regulations has not been done. The municipality does not communicate to employees that upon the termination of services, the required period of notice must be</p> | <p><i>Ensure correct procedure followed in future</i></p> | | <p><i>March 2012</i></p> | | | | <p><i>Corporate Services</i></p> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|---|---|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| | served | | | | | | | |
| Overtime worked was not approved before it was worked: Non-compliance with Section 10 of the Basic conditions of employment <i>Table not included</i> | Financial and Performance Management -Review and monitor compliance with applicable laws and regulations | <i>Overtime was approved, supporting documents to be provided.</i> | <i>Improve timely submission of requested documents</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |
| Misstatement of the leave provision in the AFS | Financial and Performance Management -Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting | <i>Review of IT system with a view of obtaining an integrated system (HR and Finance)</i> | <i>Systems review</i> | March 2012 | | | | <i>Corporate Services</i> |
| There is no formal way of communicating policies in place amongst staff | Management did not establish and communicate policies and procedures to enable and support | | | | | | | <i>Corporate Services</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|--|---|--|-------------------------------------|-------------------|------------|-----------------------------------|-----------------------|---|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| members. Staff members are not aware of policies and procedures that governs the municipality. Hinders the understanding and execution of internal control objectives, processes and responsibilities | understanding and execution of internal control objectives, processes and responsibilities | | | | | | | |
| The following invoice does not agree to the amount disclosed in the general ledger. Name of Supplier : Walton's (Pty) Ltd Invoice No. : EMP126131SI Date : 23/11/2010 This is due to management - not inspecting supporting documents - not agreeing details from supporting documents to cheque voucher before authorizing | Financial management -not implementing proper record keeping in a timely manner to ensure that relevant and accurate information is available to support financial and performance reporting. | <i>Awaiting an certified invoice from the supplier as only a copy could be provided.</i> | <i>Ensure proper record keeping</i> | <i>March 2012</i> | | | | <i>Manager Budget and Financial Reporting</i> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

| AUDIT 2011 / 2012 FY | | | | | | | | |
|---|---|--|---|--------------------------|------------|-----------------------------------|-----------------------|--------------------|
| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
| <p>the voucher.</p> <p>This results in expenditure recorded in the general ledger being overstated by R 920.50 and VAT input being overstated by R 128.87</p> <p>Table not included</p> | | | | | | | | |
| <p>All signed cheques are returned to the preparer to send to the different creditors.</p> <p>This is due to</p> <ul style="list-style-type: none"> - a risk assessment not being conducted to identify lack of controls. - a lack of internal controls. - shortage of staff to implement controls | <p>This is due to</p> <ul style="list-style-type: none"> -Internal controls are not selected and developed to prevent / detect and correct material misstatements in financial reporting | <p><i>Ensure segregation of duties</i></p> | <p><i>Fill vacant position in expenditure section</i></p> | <p><i>March 2012</i></p> | | | | <p><i>CFO</i></p> |

BUDGET & TREASURY DEPARTMENT: FINANCIAL TURNAROUND STRATEGY
(As informed by 2010/11 Audit report)

AUDIT 2011 / 2012 FY

| AUDIT QUERY | CAUSE | REMEDIAL ACTION | PLANNED ACTIVITY FOR NEXT 6 MONTHS | TARGET DATE | CHALLENGES | BUDGET NEEDED FOR REMEDIAL ACTION | MEANS OF VERIFICATION | RESPONSIBLE PERSON |
|---|-------|-----------------|------------------------------------|-------------|------------|-----------------------------------|-----------------------|--------------------|
| This could lead to authorised cheques being edited and/or stolen. | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

ANNEXURE 4: UMHLOSINGA DEVELOPMENT AGENCY

UMHLOSINGA DEVELOPMENT AGENCY CHAIRMAN'S ANNUAL REPORT

By: Rev/Dr H. S. A. Fakude

It gives me pleasure to once more take this podium to render an account of the activities of UMhlosinga Development Agency; for the year 2010/11 under review. I must admit though; that I was unsure whether or not I would make it, due to physical incapacity that had subjected me to a by-monthly Nkosi Albert Luthuli Hospital care to the infallible Almighty God.

Parent body change

I wish to pay tribute to our “Grandfather” - the previously District Municipality that was led by the IFP; for initiating the establishment of UMDA which was a sterling effort in the best interest of the struggling inhabitants of UMkhanyakude nodal district. We wish all their councillors well; in their subsequent endeavours.

New brooms

Allow me to take the opportunity of congratulating and welcome our new assumed “Parent” spearheaded by popular ANC vote. The ANC has indeed broken ice after years of vigorous tussle with the IFP over the control of the District. Rest-assured; my comment is from an apolitical point of view. I have my utmost confidence in the capabilities of our Parent Body, especially His Worship –the Mayor, with whom; I have grown –up-politically and known each other’s strategic approaches. That was an era when he was ANC and I was a rival IFP at both KZN parliament and Local Government levels. UMDA has resolved that the two of us will henceforth hold by-monthly bilateral meeting to confabulate matters of the district common causes viz. Progress report, bottlenecks, achievements, compliance etc.

All in all; we are looking forward to working “hand –in-glove” with the District under the able leadership of His Worship the Mayor-Cllr. S. J. Vilane.

The board of Directors

Continuity of service by the founding members of Board of Directors has ensures consistency and stable running of the Agency. The teamwork; unity of purpose; dedication and tranquillity have always prevailed and we truly symbolised five brothers

and a sister. The vacancy created by the resignation of Mr. Craig Rutherford remains outstandingly unoccupied; and onus is on the District in whose prerogative it is; to make the appointment and preferably to be gender conscious. Had our Board deliberations forced a vote we would have reached stalemates; save when the Chairperson is forced to cast a biased deliberate vote; but fortunately all our debates ended by amicable consensus.

Management and staff

Mr. A.X Gericke-Chief Executive Officer; affectionately known as Alroy holds the mainstream baton of the Agency with versatility, dedication, passion and proficiency. Through Alroy; we have become a role-model for other Agencies as well as these Municipalities wish to establish their own entities for the first time –the latest being the, Emadlangeni Local Municipality in the Utrecht area; which took place on the 24th November 2011.The CEO routinely report to the Board through its Chairperson who is his Contract Employer; and we also maintained a very healthy working relationship worthy to be praised .The Board reports to the Parent Body – the Mayor to be precise; through its Board Chairman. The CEO and I, have agreed that the two will in future hold a bi-monthly bilateral to confer on relevant business matter. It is hoped that this undertaking will enhance effective communication and better understanding.

The CEO's duties are complimented by an able Chief Operations Officer-Ms. Khosie Bhengu who has generously been seconded to us by the Parent Body from time of inception. This industrious hardworking go-getter is dedicated to her services to the Agency and she performs beyond expectations. A cherry on top of the Management cake is the vivacious Accountant/Company S secretary – Ms Mimi Mbokazi who keeps an eagle eye over the Agency finances and code of ethics. Her high mercantile proficiency; has earned the Agency; unqualified Audit Reports for the fourth year running. Viva Mimi Viva!! Up UMDA Up!! Forward the Parent Body Forward!! We have good reason to celebrate this milestone at some time.

The rest of the staff compliment is a close knit team of well trained employees in specialised fields of discipline. Our employees are entitled to extensive in-service – training by way of offering them bursaries for individual work- related skills

I am indeed privileged to be part; of this exemplary close knit family. Perhaps as a father-figure of the Agency I feel like proposing the establishment of a small kitty as an extra mural social club to cherish our individual birthdays, wedding, and anniversaries;

as well as sharing grief. We could christen our club as Īmbilaphu (izwela isilonda) or “Umndeni Club”.

This is just food for thoughts.....

Building of trust

During the past; the Agency has failed to impress the target group (residence) as if we were not delivering anything. This has unfortunately been attributable to the incorrect and misleading information which had raised hopes that the Agency would be dishing out monies, building schools, clinics, and delivering jojo tanks during drought periods. Our catalyst role is to research and create an enabling environment conducive to development within Umkhanyakude as our area of operations. The Agency is now all out to unpack our role as per our vision and mission statement; and we would implore the Parent Body to promote its “product” in its dealing with the communities. Another inhibiting factor that has handicapped the Agency was the time-consuming red tape; bureaucracy and pessimism which characterised certain powers that be viz. EIAs; tender processes; compilation and approval of Business Plans; and sourcing of funds.

I am pleased to announce today that we have finally exhausted the tiring pre-establishment phase and are advancing towards the crucial implementation phase during which; our folks will “see and touch” the uMkhuze Regional Airport, Uhlaza Housing, the Mall ,Jozini Hydro Electricity, the Makathini Vegetable basket, Route 22, and other projects that were initially set out to embark on.

The Board, Management and staff are to be commended for their patience and understanding of the challenges against the integrity of the Agency during sometimes trying times. You guys kept the fires burning and flag flying. We have indeed laid a solid foundation upon which our detailed projects revealing statistics i.r.o. employment opportunities depicting male, female and youth for each project established in our nodal district.

Board meetings

Two remaining mandatory Board meetings will be held on Thursday 15th March 2012.and 21st June 2012. In future; all the four mandatory Board meetings dates for a current year shall be predetermined during the first such gathering.

Office Christmas holiday

Our offices at 308 Ebony Crescent in Mtubatuba shall be closed from 16th December 2011, to the 02 January 2012.inclusive.

Festive season

May I take this opportunity of wishing our Parent Body, the Board; Management/Staff and the entire UMkhanyakude family; a merry, merry Christmas and a industrious 2012 full of pleasant surprises. We must earnestly plead with God the Almighty to save us the prevalent carnage in our roads; and most so; the breath-taking catastrophe poised by the global climate change which has a potential of rupturing the ozone layer and wipe-out mankind from the face of this earth. Let us all turn to the infinite God for the redemption of our wrong doings and for Him to have Mercy upon us.

Let us pray....

"Heavenly Father; in this world there are so many things we do not understand. Father help those who are trying to give relief. Bless all their cares and let COP 17 find the best way of handling these most volatile matters in a way that we may all co-operate in finding a lasting solution. Most merciful God; we come before You in these extreme international difficulties, when our future hangs in the balance. Only you have the infinite power of saving this world from the precipice we are approaching. Lord help us to confess that we have sinned and provoked You by our abominable conduct. Oh Lord help us to come together in these crucial times that we may make the necessary sacrifices towards unity of purpose that we may understand your Holy will and welfare of our land and people. Lord the God Father, the Son and Holy Spirit; have Mercy upon the creation of your own hands and grant forgiveness of sins; love and peace in abundance."

Ukuthula kuka Nkulunkulu, okwedlula ukuqonda konke-kuyakulondoloza imiphefumulo, nemcabango, nezinhliziyu zenu kuKristu Jesu. Njengokuba kwakunjalo ekuqaleni, kunjalo manje-makekubenjalo ngezikhathi nezikhathi.....ize ibuye Inkosi.Amen

I thank you!!

Hosea Alex Sandanezwe kaAndreya kaNyamana kaVondovondo Fakude.

Chief executive Officer Report

“As Chief Executive Officer I would like to Congratulate the new government in office, and I am looking forward in working for you with the same determination as before. I would like to thank with Profound respect and gratitude the previous Government for its Vision of Economic growth, I am very positive that the new government will build on these foundations as economic welfare is a matter that concern us all.”

Back Ground on the UMDA to date

The UMDA established in 2005 started its Operations in 2008 and this last 3 years and two Financial Years we have come a long way in creating a environment for serious developmental engagement with both Public and Private Sector. The Agency operations commenced in the same year as the worst economic crises since the 1930’s and this was a major challenge for all concerned. The fact that the UMDA is conditional Funded by the IDC does not guarantee the success of project finance and outcomes.

With the remarkable assistance from The DBSA and IDC as a team we were however able to source funding for two Major studies that we believed would act as catalyst projects in our district. The First being the development of a Hydro Electricity Plant at the Jozini Dam Wall in the Pongola Poort Dam. The second being the Mkuze Aerodrome for development of a Airport with Full services.

The Terms of reference for both these projects was to emphasise the development potential over the next 20 years in order to implement the projects at any given time pending funding. The studies that took 11 months to complete came up with strong recommendations that both projects will have the Catalyst effect should they be perused and depending on the funding nature and sources the projects will be financial viable.

Programs and Projects

The UMDA has chosen the Program path as a Social Enterprise in dealing with the huge challenge of the District Economy. The programmes are based on the both the Strengths and Opportunities identified in the *Strategy2008\2009*. The need to focus economic development and transformation on a district scale is and will remain a challenge for some time to come but will be overcome with careful planning and alignments between District 5 Local Municipalities.

The newly established Shared Service Planning Department in the District Headed by Chief Planner Boxer Mponthane will bring order to the current erratic development “planning” in the district and will give the Local Municipalities the strength they need to control development rather than containing it.

The district Municipality had embarked on a Environmental development Planning initiative and this will assist in determining the areas for development and zoning of industrial and housing amounts others.

The successful implementation of our Programs will rely heavily

Performance

Jozini Hydro this project is a challenge to the UMDA as we have now done all the necessary processes required to apply for the Licence and operational permission. The cost benefit analysis that was required by Mjindi and the MEC for Agriculture was done and presented. Licence and relevant documentation was send to The current status of the project is to engage on a high level with National and Provincial Government into making this project become a reality.

Mkuze Aerodrome as the second Catalyst project has three aspects regarding its development including the Original Development of a regional Airport, the Operations of a Managed Aerodrome and the Marketing of the Product.

With regards to the **Development of the Airport** itself the UMDA is still of the opinion that the Project should be developed with a majority of State funding as it will not be viable to attract private sector investors to the project for the following reasons; the current financial climate would make this type of investment far too risky, secondly the risk is that should the project be given to the private sector to fund it will be of little benefit to the local economy as the profits and any related income will be going elsewhere, thirdly the amount of income to the shareholder will be minimal.

The UMDA made an application with the DBSA Job Creation Fund for the development of a Basic Airport infrastructure with all the necessary refuelling and emergency equipment and regulations of a fully fledged Regional Airport. This application is pending we have made a further application with the LSDI fund and hope that we will have a positive outcome soon. The UMDA will continually look at the opportunity to fund this project as it has great economic potential. The Current 24 month Aerodrome Usage data will be available after December 2011 and should give the Agency a good indication of the potential growth and future prospects of the Aerodrome.

The second aspect of the Aerodrome is that of **Operations**, in this regard the Agency has implemented a landing fee structure and have implemented some limited operational and maintenance activities. The aim of this is to ensure that the Landing strip and its surroundings are in line with the Civil Aviation Authority requirements. This will further enhance the importance of the project to the general public.

In the last financial year the aerodrome collected R87 000.00 in landing fees and this figure is a very good indication as to the importance of further enhancing the

aerodrome. We would be looking at providing more user friendly, with services such as toilets and a small reception area, as well as limited fuel on demand.

The third and last aspect of the project will be that of **Marketing** the product and its partners. The marketing this year drew enthusiastic attention at the annual 2011 Tourism Indaba. The next project in terms of marketing is a Tour Operator sample trip to show the importance and practical convenience of the airport in the future.

On the **Agriculture** side of our development program we are facing some challenges and some great opportunity. The UMDA signed an MOU for development cooperation with the Mjindi Farming (pty)ltd, in terms of this MOU the UMDA will assist in the development and operations of the Packaging Plant at Section 2 of the irrigation scheme and the Business Support and Development of the Farmers in the Makathini.

The project is currently stalled due to administrative challenges with Mjindi and this should not delay the program but should slow down the implementation of some of the initiatives. The Seedling Nursery planned for the Makathini will be housed in the irrigation scheme and this would greatly benefit the local farmers as they currently have to drive to Pongola and Eshowe for reliable seedlings.

Our hope is that MOU will become more prominent and that the UMDA and Mjindi could change the landscape of the agriculture in the district as a whole.

The Agriculture program that the UMDA is the most anticipating is that of the Small Community Farming (Communal Gardens) program of the Flanders Government and the Premiers Office. This project has great potential and comprises of the utilisation of start-up grant funding for the establishment of small holding vegetable growers for food security. Secondly to produce access vegetables for the Schools and Hospitals in the District. The UMDA will be looking at the Agricultural Development aspect of this as well as the market Place development and promotions.

The UMDA has registered the Branding Makathini Vegetables and will be utilising this brand to promote District Vegetable marketing and sales.

The **Tourism Flagship** of the UMDA is ROUTE 22 this insensitive has two main objectives the first being the Opening up of two-thirds of the District for Tourism Potential. And secondly to take ownership of the Tourism Transformation process. The latter has two aspects to it one the Transformation to Black ownership and the second the increase of the economic value of tourism in the district.

The R22 SEE MAP is central to the district and therefore provide the opportunity to develop an array of new products and enhancing the existing products on route. The feasibility study will only be finalised in the new financial year due to late procurement, but the passive marketing campaign has had some positive outcomes even before the product has been finalised.

The Route will see the development of several unique opportunities in the fields of Tourism, Cultural and Agricultural products. The products from the UMDA and its Partners include the following; Wow Zulu Craft and Tourism Activity centres, Tranquillity Park Communal Land Time Share, Empini Golf and Eco Estate, Avenue of the Kings and 4X4 UMkhanyakude.

The Private sector has added their own products apart from the existing ones and they include Zulu Crock, False bay Community Museum, Tunga Craft and the Organic farmers stall.

The Tembe Traditional Authority will be developing the Tembe Monument and Cultural Experience at Phelandaba. All if funded are ready for establishment and this will greatly enhance the district tourism appeal.

ROUTE 22



The *Rail Revitalisation Project* Marketing study was commissioned and this has had some very positive outcomes. The report will form the basis of our Corridor Investment Initiative that was successfully applied for under the IDC RIDS Program Funding. The subsequent follow up project will form part of the ongoing initiatives by the UMDA to explore all areas of economic growth and potential expansion.

This project will look at the three main corridors of the district namely the R22 the N2 and the Lebombo Rail between UMhlatuze City and Gollela Boarder. The possible projects to emerge from this initiative would be aiming at Logistical and support to logistics. The incentive will firstly identify opportunity, secondly identify capacity and thirdly facilitate that capacity and well as marketing of the investment .

Challenges

The UMDA continues to face challenges on procurement of tenders by the parent body and this will impact negatively on the performance of the UMDA and the possible Financial Viability of both UMDA and the UMkhanyakude District Municipality. The Renewable Energy program pertaining to Wind Energy Generation has been delayed now for 9 months and as such the window of opportunity is closing up for the possible equity Shareholding in these projects in the future.

It is the Hope that the new Government of the District would embrace the UMDA and its Mandate to the extent that greater support Funding will be done in the 2012\2013 Financial Year as the IDC support funding will then expire. The annual overheads of approximately R2m for Operational cost will have to be sourced from the shareholder should we not have sufficient funding or sustainable income at the time.

I am positive that the impact of the UMDA will be felt over the next 36 months and that both Local and Provincial Government will see the benefit of the UMDA as a Social Enterprise of Note.

Performance Report

Notes: the remainder of the budget is to be spend in the next 60 to 90 days and can be verified against the contracts and agreements with projects participants.

| UMHLOSINGA DEVELOPMENT AGENCY PERFORMANCE REPORT | | | | | |
|--|---------------------------|-----------------------------------|-------------|----------------------|--|
| Tranche One | | | | | |
| KEY PERFORMANCE OBJECTIVE STRATEGY | KEY PERFORMANCE INDICATOR | TARGET | BUDGET | PROJECT COST TO DATE | PROGRESS TO DATE (MILESTONES) COMMENTS |
| Industry | Establishment of a Hydro | License agreement ----- EIA | R 50,000.00 | R 50,000.00 | We are currently waiting for feedback from Mjindi farming for a joint venture agreement to be set-up cost benefit analysis was commissioned and will be jointly funded by UMDA and Mjindi, this cost benefit analysis will stand as the final intervention from the team before funding can be |

NERSA License

obtained. the process of paying for the cost benefit analysis was to enable the project to move forward and be funding ready. at the time of this report we have done all necessary to obtain the Licence and though we are not the applicant we believe that no further delays should Accor

| | | | | | |
|----------|--|--|-------------|-------------|---|
| Industry | Establishment of Three wind farms in the district | Design of TOR for Renewable Energy Program to complement the Hydro development 3 sites for feasibility wind measurement instruments @ R75 000 each | R 50,000.00 | | Preliminary talks with two energy development companies has commenced. We have send correspondence to the MM with regards to the PPP route for the renewable energy program of UMkhanyakude. This will see the district (project initiated) Mjindi Farming (water licence Holder) and a private company pursue the development. the new legislation on Renewable Energy development states that no State or State owned company can have more than 50% shareholding in an Energy generation project. Expression of Interest in Wind Energy generation in the UMkhanyakude District was publicized and 35 Companies attended the briefing. |
| Industry | (Sustainable Communities Program)Rail Revitalisation | Do marketing investigation for revitalisation of Commuter rail and establishment of emerging businesses at old Railway stations. | R 50,000.00 | R 39,000.00 | Project on held due to budget not yet received, the DBSA has prepared a marketing survey for this purpose and it will be initiated as soon as funds are available. |

| | | | | | |
|--------------|--|---|--------------|-------------|--|
| Marketing | Host two marketing and Business Investment & Partnership | Annual Golf day and investment summit to attract investors to invest in District. Introduction of the UMkhanyakude Chamber of Commerce (UCC) | R 50,000.00 | R 50,000.00 | Event was held and although only 50% attendance it has led to a Fully sponsored event in the Spring of 2011 October to be held in colaberation with the uMkhanyakude chamber of Commerce and the DEDT. |
| Agribusiness | (Sustainable Communities Program) Makathini Master Plan | Engage the Mjindi Farming PTY (LTD) in terms of development and expansion of the Makathini irrigation scheme. Based on MOU and the Master Plan Identify and lobby 1 producer to establish Production facility in the irrigation scheme Capacitate 6 Youth and female Co-operatives towards agri-business and processing | R 50,000.00 | | Under the MOU 3 joint venture agreements are to be finalised one for the nursery at section 2 Makathini, one for the management of the Packaging Plant and one for the 4 youth agric-development sites in the Makathini. The UMDA has secured the Brand Name Makathini vegetables and farmers will be encouraged to brand under this name for quality and price assurance. Branding application was done and with CIPRO. Nursery was Identified as the first project and this will be established in the 3 Quater of 2011. |
| Tourism | Route 22 | Cultural Impact assessment of district 27 | R 130,000.00 | | Urban Econ was appointed to conduct the study the projects will be completed in the first quarter of 2011\2012 Financial year funding to |

| | | | | | | | |
|------------|---------------------------|---|---|------------|---|------------|---|
| | | Environmental and Natural Resource assessment | R | 120,000.00 | R | - | be allocated for payment of the services. The project was delayed due to procurement processes at DC27 and funding delays |
| | | Anchor Product feasibility for route establishment | R | 130,000.00 | R | 135,000.00 | Final draft was presented by ORION and the first two sites is under investigation for implementation of project. |
| Tourism | Mkuze airport Development | Joint Marketing campaign for the promotion of the Mkuze airport as a port of entrance to DC27 this is done with 6 Main operators and Product Owners in District two major European and one African Trade Show is targeted. Stand Cost | R | 40,000.00 | | | Project is scheduled for September 2011 due to congestion of the Diaries of major operators and Tourism SA\KZN |
| Operations | Marketing & Media | Business Plan 50 copies at R50 each | R | 20,000.00 | R | 20,000.00 | Business Plan Vision 2029 was allocated to Website due to cost of printed document and the fact that the elections delayed the printing of a document that may need further input from council. |
| | | Annual Report | R | 50,000.00 | R | 50,000.00 | Was printed and distributed |

| | | | | | | | |
|----------------------------------|------------------------------------|---|---|-------------------|---|-------------------|---|
| | | Web Site Update | R | 20,000.00 | R | 20,000.00 | News letter was Route 22 May 2011 |
| Corporate Governance | Strategy Session of Board | Meeting to be held and presentation to be done to Council | R | 20,000.00 | R | 20,000.00 | Meeting was held at Hluhluwe 26 April 2011 and attended by 60% of Council |
| Business support & Development | | Establishment and Administration and Membership canvassing and database establishment and monitoring | R | 100,000.00 | R | 100,000.00 | Database has been Finalized |
| Business Support and Development | Support Centre at UMDA Head Office | Establishment of Office and database of 1000 businesses. | | | | | Database has been Finalized |
| | | Establishment of Bookkeeping services for current SMME, Compliance and Registration and Training completion | R | 60,000.00 | R | 60,000.00 | Delay in project implementation due to funding |
| Budget Tranche one | | | R | 940,000.00 | R | 544,000.00 | R 396,000.00 |

Trench Two

| | | | | | | | |
|--------------|--|---|---|-----------|---|---|--|
| | Establishment of Three wind farms in the district | Establishment of 3 sites for feasibility wind measurement instruments @ R75 000 each | | | | Project held over due to cost and Procurement failure | |
| Marketing | Host two marketing and Business Investment & Partnership | Hosting one Gala Event in 6 months to promote and launch UMkhanyakude Chamber of Commerce | R | 40,000.00 | R | 40,000.00 | Event was held on the 26th of may 2011 it was attended by 138 members of the Business Community and was co sponsored by TiKZN and FNB to the value of R50 000 |
| Agribusiness | (Sustainable Communities Program) Makathini Master Plan | Identify and lobby 1 producer to establish Production facility in the irrigation scheme | R | 75,000.00 | | | Nursery is to be up and running by 15th of July due to process and delays we could only initiate the project at the time Funding allocated and should be spend by 15th of July 2011. the project compromises a Makathini Based nursery for vegetable seedlings and will be co managed by UMDA and Mjindi. this is a project for SUSTAINABILITY OF UMDA. this project will coincide with the Flanders government garden projects and we |
| | (Sustainable Communities Program) Vegetable | Capacitate 6 Youth and female Co-operatives towards agri-business and processing | | | | | |

| | | | | | | | |
|---------|--|--|---|-----------|---|-----------|--|
| | Production | | | | | | hope to produce a large group produce for a sustainable product barding program. 4 youth groups are identified by Mjindi and the process of land preparation and training will start for the next season of planting. |
| | | The Facilitation of mass vegetable productions and packaging of market driven vegetables in the Makathini. In support of current packaging Plant and Fresh Produce Market. | | | | | |
| | Utilization of vacant land at Mkuze Airport through property development | Facilitation and project Monitoring of the Development | R | 40,000.00 | R | 42,000.00 | Funding has been diverted to the equipping of more safety related environment with the erecting of a Weather Station and the connection of Radio Service Delays due to council resolutions and possible funding application as there was no funding for QS and PDA application. |
| Tourism | | | | | | | |
| | Mkuze Airport Development | INDABA 2011 | R | 50,000.00 | R | 50,000.00 | The airport was showcased at Indaba 2011 and a great deal of interest was shown the development and the possible utilisation of the airport. The UMDA as a consequence of this will be meeting with a group of Chatter Companies in July to look at the possibility of offering two flights a day one from and one to Mkuze. |

| | | | | | | |
|----------------------------------|--|--|---|------------|--------------|--|
| | | European Tour Operator Introduction to Marketing campaign | R | 50,000.00 | | Project held over for Tourism Month and to get Tourism South Africa to finalize the Branding of the Market, this will coincide with the possible regular chatter of a Plane for daily flights from Mkuze to Gauteng. |
| | | British Tour Operator Introduction to Marketing Campaign | | | | |
| Property Development | Mbazwana Golf and ECO Established EMPINI | Business Plan and Consultation to the development of a Business Plan for the Golf Estate. EIA finalization | R | - | | Preliminary investigation has been done and further work will be done against new Budget, Partial EIA has been done process to continue with all stakeholders no engaged and signed on . |
| Business Support and Development | Support Centre at UMDA Head Office | Establishment of Office and database of 1000 businesses. Establishment of IT Service centres in each Municipal lobby @ R20 000 per unit | R | 100,000.00 | R 265,000.00 | The UMDA has decided to embrace the Thembela IT System as it speaks to the broad aspects of Business Support and Development . This program will not only assist in the capacitating of SMME's but will furthermore assist in identifying their needs , provide them with a platform for procurement and market their respective businesses. the program will be hosted by UMDA for one Year and thereafter will continue to grow. |

| | | | | | | | |
|---------------------------|---------------------------|--|---|--------------|---|--------------|---|
| | Strategy Session of Board | One Strategy for DC27 of UMDA on 2029 Strategy | R | 20,000.00 | R | 20,000.00 | Was held at Hluhluwe 26 April 2011 and attended by 60% of Council |
| | Marketing & Media | Quarterly News Letters @ R20 000 each | R | 20,000.00 | R | 20,000.00 | Website update and route 22 news letter was printed |
| Operations | Marketing & Media | Advertising of 2 tenders @ R15 000 each | R | 30,000.00 | R | 30,000.00 | News paper advert was placed |
| Budget Tranche Two | | | R | 425,000.00 | R | 467,000.00 | R -42,000.00 |
| TOTAL Budget | | | R | 1,365,000.00 | R | 1,011,000.00 | R 354,000.00 |

Notes: the remainder of the budget is to be spend in the next 60 to 90 days and can be verified against the contracts and agreements with projects participants.

Directors report

FINAL MANAGEMENT REPORT

UMHLOSINGA DEVELOPMENT AGENCY PTY (LTD)

2011-06-30

MANAGEMENT REPORT

UMHLOSINGA DEVELOPMENT AGENCY PTY (LTD)

2011-06-30

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**MANAGEMENT REPORT TO THE ACCOUNTING AUTHORITY ON THE AUDIT OF THE UMHLOSINGA
DEVELOPMENT AGENCY PTY (LTD) FOR THE YEAR ENDED 30 JUNE 2011**

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations for the year ended 30 June 2011 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
 2. The management report consists of executive summary and detailed audit findings which are contained in annexure A, B and C.
-

THE AUDITOR-GENERAL'S RESPONSIBILITIES

1. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) our responsibility is to express an opinion on the financial statements and to report on findings relating to our audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the entity. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the report on predetermined objectives and compliance with laws and regulations applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, the report on predetermined objectives and material non-compliance with laws and regulations.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
 2. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or the report on predetermined objectives or compliance with all applicable laws and regulations.
 3. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. These may include:
 - an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
 - an additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
-

THE ACCOUNTING AUTHORITY'S RESPONSIBILITIES

4. The accounting authority responsibilities are set out in detail in the engagement letter. These include the following:

- The preparation and fair presentation of the financial statements in accordance with the GRAP basis of accounting.
 - Planning, monitoring of and reporting on performance against predetermined objectives.
 - Review and monitoring of compliance with laws and regulations and disclosing known instances of non-compliance or suspected non-compliance with laws and regulations.
 - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable the preparation of financial statements and the report on predetermined objectives that are free from material misstatement whether due to fraud or error, and compliance with laws and regulations.
 - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
 - Implementing appropriate risk management activities to ensure that regular risk assessments are conducted.
 - Disclosing all matters concerning any risk, allegation or instance of fraud.
 - Accounting for and disclosing related-party relationships and transactions.
 - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.
-

EXECUTIVE SUMMARY

SECTION 1: Meetings with oversight bodies and those charged with governance

5. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the municipal entity and emerging risks. Insight was provided on the key controls that impact these audit outcomes to enable corrective action to be taken.
6. Meetings were conducted as follows:
 - Audit committee meeting held 19 August 2011
 - The executive authority on 20 September 2011, 26 September 2011, 19 October 2011
7. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. Progress made on these commitments is discussed later in this report.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

8. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the municipal entity's system of internal control. These material misstatements also constitute non-compliance with the GRAP Standards. The misstatements not corrected form the basis for the opinion on the financial statements.

| Material misstatements | | Impact | Internal control deficiency |
|---|--|---------------|--------------------------------------|
| Financial statement item | Finding (brief description of misstatements as per findings and audit report) | R | |
| Material misstatements corrected | | | |
| Non-current assets | <p>During the audit it was noted that three assets that were lost/damaged were not de-recognized on the asset register, thus overstating the assets at cost, in the financial statements</p> <p>The accounting authority does not review and monitor the financial records to ensure compliance with all the applicable laws and regulations</p> | 12,709.00 | Financial and performance management |
| Leave provision | <p>During the audit of provision it was noted that the calculation of the provision was incorrect as it uses (Basic salary p.m/21 days), a recalculation of the provision shows an overstatement of the leave provision</p> | 19,419.99 | Financial and performance management |

| Material misstatements | | Impact R | Internal control deficiency |
|---|--|-----------------|--------------------------------------|
| Financial statement item | Finding (brief description of misstatements as per findings and audit report) | | |
| | The accounting office does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control. | | |
| Accounts payable | <p>We audited the VAT returns and noted that VAT has been incorrectly disclosed as a liability of R 151,369, while VAT 201 returns shows a positive movement of R 95,799.98 that decreases the prior year liability to R 164,058.94.</p> <p>The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations.</p> | 12,689.59 | Financial and performance management |
| Material misstatements corrected | | | |
| | | | |
| | | | |



| Material misstatements | | Impact | Internal control deficiency |
|---------------------------------|---|---------------|------------------------------------|
| Financial statement item | Finding (brief description of misstatements as per findings and audit report) | | |
| | | R | |
| | | | |
| | | | |
| | | | |

PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Unauthorised, irregular and fruitless and wasteful expenditure

9. As disclosed in note 18 to the financial statements, irregular expenditure, relating to procurement and contract management totalling R139,876 was incurred, as a result of contraventions of the Municipal Supply Chain Management Regulation 36(2).

ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Unaudited supplementary schedules

10. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

PART C – REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

FINDINGS ON THE REPORT ON PREDETERMINED OBJECTIVES

There were no material findings on the annual performance report.

FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Included below are findings on material non-compliance with laws and regulations applicable to the entity.

MFMA non - compliance

Risk Management

11. The municipal entity did not implement appropriate risk management activities as required by section 95 (c)(i) of the Municipal Finance Management Act.

Audit Committee

The audit committee did not meet at least four times a year.

Internal Audit

12. The municipal entity did not have an internal audit unit in place as required by section 165(1) of the Municipal Finance Management Act.

AFS & Annual Report

13. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of (capital assets/liabilities/ revenue/ disclosure items) identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.
-

INTERNAL CONTROL

Achievement of internal control objectives

14. Significant deficiencies that resulted in the basis for the opinion, findings on the report on predetermined objectives and findings on compliance with laws and regulations are summarised below. Detailed information on significant internal control deficiencies is provided in section 5 of this report.

15. Leadership

16. Management has not exercised *adequate oversight responsibility over reporting and compliance with laws and regulations and internal control*.

Financial and performance management

17. Systems are not appropriate to facilitate the preparation of the financial statements in accordance with applicable legislation.

Governance

18. The municipal entity did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risk is developed and monitored.

19. The municipal entity did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

20. The Audit Committee did not have four meetings as required by the MFMA. The Audit Committee did not provide an oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations by ensuring that there is an internal audit function.

PART D – OTHER REPORTS

INVESTIGATIONS

21. Investigations in progress

There are no investigations in progress

22. Investigations completed during the financial year

There were no investigations completed during the year

PERFORMANCE AUDITS

23. No performance audit was conducted for this entity.

AGREED-UPON PROCEDURES ENGAGEMENT

24. There were no agreed upon procedures for this entity.

DONOR FUNDING

25. No audit was conducted on donor funding.

SPECIAL AUDITS

26. No special audit was conducted for this entity.

SECTION 3: CONCLUSION ON THE REPORT ON PREDETERMINED OBJECTIVES

Included below is our conclusion on the report on predetermined objectives

27. No matters to report

SECTION 4: SPECIFIC FOCUS AREAS

PART A – SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

28. No matters to report.

PART B – SERVICE DELIVERY MATTERS IN RESPECT OF THE SECTOR

Sector audit is not applicable to this entity.

SECTION 5: SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

PART A – ASSESSMENT OF THE ACHIEVEMENT OF CONTROL OBJECTIVES

29. The achievement of the objectives of internal control is demonstrated by the implementation of key controls. The assessment below is based on significant deficiencies relating to the fair presentation of the financial statements, material misstatements corrected as a result of the audit, findings on predetermined objectives and findings on non-compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or report on predetermined objectives to be materially misstated and material non-compliance with laws and regulations to occur. When a significant deficiency is not applicable, it is assessed with a 😊, 😐 to indicate that the deficiency still exists but significant progress had been made to address it, while 😞 indicates that urgent attention to the matter is required. Part B gives additional information on the deficiencies that should be addressed. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

| 3 Audit dimensions Fundamentals of internal control | Financial | Performance objectives | Compliance with laws and regulations |
|---|--|---|---|
| | Assessment | | |
| Leadership | | | |
| <ul style="list-style-type: none"> Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity |  |  |  |
| <ul style="list-style-type: none"> Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls |  |  |  |
| <ul style="list-style-type: none"> Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored |  |  |  |
| <ul style="list-style-type: none"> Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities |  |  |  |
| <ul style="list-style-type: none"> Develop and monitor the implementation of action plans to address internal control deficiencies |  |  |  |
| <ul style="list-style-type: none"> Establish an IT governance framework that supports and enables the business, delivers value and improves performance |  |  |  |
| Financial and performance management | | | |
| <ul style="list-style-type: none"> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting |  |  |  |
| <ul style="list-style-type: none"> Implement controls over daily and monthly processing and reconciling of transactions |  |  |  |
| <ul style="list-style-type: none"> Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information |  |  |  |
| <ul style="list-style-type: none"> Review and monitor compliance with applicable laws and regulations |  |  |  |
| <ul style="list-style-type: none"> Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information |  |  |  |
| Governance | | | |
| <ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored |  |  |  |
| <ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively |  |  |  |
| <ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations |  |  |  |

PART B – DETAILS CONCERNING THE ACHIEVEMENT OF INTERNAL CONTROL OBJECTIVES

LEADERSHIP

Oversight responsibility regarding reporting and compliance

30. Management has not exercised *adequate oversight responsibility* over reporting and compliance with laws and regulations and internal control.
-

FINANCIAL AND PERFORMANCE MANAGEMENT

Availability of expected information

Monitoring of compliance with laws and regulations

31. The accounting authority does not review and monitor the financial records to ensure compliance with all the applicable laws and regulations
-

GOVERNANCE

Risk management

32. The municipal entity did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored

Internal audit

33. The municipal entity did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

Audit committee

34. The Audit Committee did not have four meetings as required by the MFMA. The Audit Committee did not provide an oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations by ensuring that there is an internal audit function.
-

PART C – ACTIONS TAKEN TO ADDRESS MATTERS PREVIOUSLY REPORTED

Executive officer/Executive authority/Municipal council

35. An audit committee was established but did not meet four times as required by the MFMA. No internal audit was appointed during the year under review.

Accounting authority/Accounting authority

36. The municipal entity still does not have a risk assessment strategy in place.

Chief financial officer



37. An action plan was put in place to address the weaknesses on controls over the recording and accounting of revenue.

PART D – EMERGING RISKS

Accounting and compliance matters

38. National Treasury Preferential Procurement Regulations, 2011 has been issued in terms of the section 5 of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No.5 of 2000). These regulations will impact on the municipality’s supply chain management policies and processes and management must ensure that it updates policies and processes to include the new procurement regulations.

SECTION 5: ENTITIES CONTROLLED BY THE [DEPARTMENT / PUBLIC ENTITY / MUNICIPALITY]

39. In terms of the MFMA, the municipal entity has certain oversight responsibilities regarding the municipal entities it controls.

Umhlosinga Development agency does not have any entities that it controls.

| Name of entity | Anticipated audit opinion | | | | | |
|----------------|-----------------------------|---|-------------------------------------|--|--------------------------------------|------------|
| | Financial statement opinion | Findings on Predetermined objectives (“Yes”/“No”) | Findings on Compliance (“Yes”/“No”) | Areas in which there were significant deficiencies in internal control | | |
| | | | | Leadership | Financial and performance management | Governance |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | | | | | | |
| | | | | | | |

SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS

40. For the purposes of this report, the detailed audit findings included in annexure A to C have been classified as follows:

- Matters to be included in the auditor’s report - These matters should be addressed as a matter of urgency.
- Other important matters – These matters should be addressed to achieve clean administration.
- Administrative matters – These matters are unlikely to affect the decisions of the users of the financial statements or performance information and should be addressed at the discretion of the entity.

SECTION 7: CONCLUSION

41. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Mr Jabulani Nkosi: KZN 8

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Distribution:

CEO

CFO

Audit committee

Head of internal audit



SUMMARY OF DETAILED AUDIT FINDINGS

| Page. no. | Finding | Classification | | | | | Rating | | | In which years was it reported | | |
|-----------|------------------------------|---------------------------------------|--|--|-----------------------------|------------------|--|-------------------------|------------------------|--------------------------------|---------|---------|
| | | Misstatements in financial statements | Misstatements in annual performance report | Non-compliance with laws & regulations | Internal control deficiency | Service delivery | Matters affecting the auditor's report | Other important matters | Administrative matters | 2010/11 | 2009/10 | 2008/09 |
| | No internal audit | | | ✓ | | | ✓ | | | | | |
| | Audit Committee | | | ✓ | | | ✓ | ✓ | | ✓ | ✓ | ✓ |
| | Overstatement of assets | ✓ | | | | | | ✓ | | ✓ | | |
| | Expenditure disclosure | ✓ | | | | | | ✓ | | ✓ | | |
| | Leave Provision is incorrect | ✓ | | | | | | ✓ | | ✓ | | |
| | Overstatement of VAT payable | ✓ | | | | | | ✓ | | ✓ | | |

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

1. No internal audit unit

Audit Finding

Municipal Finance Management Act, No.56 of 2003, section 165(1) states that “*Each municipality and each municipal entity must have an internal audit unit, subject to subsection (3)*”

It was noted that the Agency has no internal audit unit as required by section 165(1) or an outsourced internal audit unit as permitted by s 165(3)

Non compliance with laws and regulations

Internal control deficiency

There is a lack of review and monitoring on compliance with applicable laws and regulations.

Recommendation

Management should ensure that there is an internal audit unit in place.

Management response:

Due to unforeseen situations UMDA had to procure its own internal audit unit. Since this happened during the year UMDA audit committee was following correct legislated procedures and this resulted in the Internal Auditors being appointed after the year end. UMDA has now its own internal audit unit

Auditor's conclusion

The matter remains as it constitutes non-compliance with MFMA for the current year and therefore the matter will be included in the audit report. A follow up will be performed in the next audit.

2. Audit Committee

Audit Finding

Municipal Finance Management Act, No.56 of 2003, section 166(1) states that “*Each municipality and each municipal entity must have an audit committee,*

(4) An audit committee must—

(b) Meet as often as is required to perform its functions, but at least four times a year”

It was noted that the audit committee only met twice during the financial year (27/09/10 & 19/08/2011) instead of the 4 minimum meetings required by the Act.

Non compliance with laws and regulations

Internal control deficiency

There is a lack of review and monitoring on compliance with applicable laws and regulations.

Recommendation

Management should ensure compliance with all the relevant laws and regulations by the entity.

Management response

UMDA was initially under the parent municipality’s audit committee. The chairperson and one member resigned and this caused the audit committee to dissolve. Therefore UMDA had to form its own Audit committee which is the result of not having the minimum of 4 meetings. In the financial year under review UMDA had 3 meetings and not two as stated by the AG.

Auditor’s conclusion

The audit committee still did not comply with section 166(4)(b) as it held only 3 meetings and therefore the matter will be included in the audit report.

3. Overstatement of assets**Audit Finding**

In terms of the GRAP 17, paragraph 76 *“The carrying amount of an item of property, plant and equipment shall be derecognized:*

(a) On disposal, or

(b) When no future economic benefits or service potential are expected from its use or disposal”

During the audit it was noted that three assets that were lost/damaged were not derecognized from the asset register (detailed on table 1), thus overstating the assets at cost, in the financial statement by R 12 709.00,

Table 1: Lost/damaged assets not recognized

| Description | Lost date | Cost |
|----------------------------|------------|------------------|
| Sanyo Recorder& transcript | 02/07/2010 | 3,868.00 |
| Portable Laptop | 01/02/2011 | 6,736.62 |
| Cell phone – Blackberry | 15/12/2010 | 2,104.38 |
| Total | | 12,709.00 |

Non compliance with GRAP basis of accounting
Overstatement of assets

Internal control deficiency

The accounting authority does not review and monitor the financial records to ensure compliance with all the applicable laws and regulations

Recommendation

Management should ensure accuracy of the disclosed information in the financial statements.

Management response

Assets are disclosed as they were still in existence in the financial year under review. Will only be excluded in the next financial year.

Auditor’s conclusion

The audit team believes that the GRAP standards were not appropriately applied and therefore the matter remains valid and has been taken to schedule of misstatements.

4. Expenditure disclosure

Audit Finding

GRAP 1 paragraph 101 states that *"An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant."*

During the review of the statement of financial performance it was noted that, expenditure was disclosed as a single line item "Operating expenses" and no notes were provided for this line item

Non compliance with GRAP

Internal control deficiency

Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting

Recommendation

The Accounting authority should ensure that they prepare the financial statements according to the required standards

Management response

UMDA's statement of financial performance has always been in this format with a detailed breakdown on the last page. This has never been a finding for AG. UMDA's AFS are also in updated required standards.

Auditor's conclusion

Managements comment is noted. No audit opinion is provided on last page as it is supplementary schedule.

5. Leave Provision is incorrect

Audit Finding

IAS 19 paragraph .14 states:

"An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period."

During the audit of provision it was noted that the calculation of the provision was incorrect as it uses (Basic salary p.m. /21 days), a recalculation of the provision shows an overstatement of the provision by R19, 419.99.

Calculation by the Agency: R 62,728.12

Calculation by the Auditors: R43, 308.12

Overstatement of the provision

Internal control deficiency

The accounting office does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The Chief Financial Officer should review the calculation of the provision.

Management response

This is a concern for UMDA as it uses a formula advised to use by the office of the Auditor General in the prior year. If AG decides to change the formula I don't believe it should be raised as a finding but rather AG can correct its own formula by recommending another new formula. Therefore, this is not acceptable in this manner as a finding.

Name: Mimi Mbokazi

Position: CFO

Date: 25/10/2011

Auditor's conclusion

Management is to have an approved accounting policy as to how they calculate their provision. The use of 21 days is a norm in a private sector while the 365 days is what is used in the public sector. The calculation is accepted as it is per formula recommended by AG. The corrective journal has been audited.

6. Understatement of VAT payable

Audit Finding

According to GRAP 1 paragraph 6 liabilities are defined as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

We audited the VAT returns and noted that VAT is understated as R151,369 instead of R164,058.94, incorrect returns amounting to R108,489.59 were used while the VAT 201 returns shows R 95,799.98, calculated as follows:

| Tax period | Output | Input | Net Returns VAT 201 | Recalculation |
|------------|------------|-----------|------------------------|---------------|
| 201010 | 118,011.65 | 25,073.93 | 92,937.72 | 92,937.72 |
| 201008 | 595.00 | 20,768.44 | -20,173.44 | -20,173.44 |
| 201012 | 4,989.16 | 24,267.31 | -19,278.15 | -19,278.15 |
| 201104 | 85.96 | 51,480.00 | -51,394.84 | -51,394.04 |
| 201102 | 1,106.25 | 11,379.00 | -10,273.00 | -10,272.75 |
| 201106 | 73.68 | 87,693.00 | -87,620.25 | -87,619.32 |
| | | | | -95,799.98 |

Understatement of creditors

Internal control deficiency

The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations.

Recommendation

The Accounting authority should review the disclosed financial information to ensure accuracy of the reported information.

Management response

The refunds were only paid in the new financial year and vat balance also includes the opening balance from the previous year.

Auditor's conclusion

Adjusted AFS have been reviewed to ensure that the VAT amount is amended correctly.

7. SCM deviation

Audit Finding

SCM regulation 36(2) states:

The Accounting authority must in regards to the deviation, "include as a note to the financial statements"

During the audit of Dynamus Technologies, it was noted that the deviation from the SCM regulation was not disclosed in the notes to the financial statements

The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Internal control deficiency

Non compliance with laws and regulations

Recommendation

Management should ensure that all information is disclosed as required by the regulations

Management response

Disclosure on AFS will be done accordingly.

Name: Mimi Mbokazi

Position: CFO

Date: 25/10/2011

Auditor's conclusion

Management's response is noted. Updated AFS reviewed to ensure correct adjustment.

8. Irregular expenditure

Audit Finding

SCM regulation Section 36(1) states:

"A supply chain management policy may allow the accounting authority-

(a) to dispense with the official procurement processes established by the policy and to procure any required goods and services through any convenient process, which may include direct negotiations, but only -

(i) in an emergency;

(ii) if such goods or services are produced or available from a single provider only;

(v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes

During the audit of SCM processes it was noted that SCM regulation section 7 was not followed in acquiring the tax consultation services of Ridhwaan Khan, section 36 of the regulation was applied incorrectly, as the services offered by Ridhwaan Khan are not "produced or available from a single provider only" or was not "an emergency".

An amount of R 139, 876 was paid in relation to the services provided.

The accounting office does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Understatement of "Irregular expenditure"

Internal control deficiency

There is a non compliance with laws and regulations.

Recommendation

Management should ensure compliance with laws and regulations

Disclosure of irregular expenditure amounting to R139,876 on the financials

Management response

Disclosure on AFS will be done accordingly.

Name:

Position:

Date:

Auditor's conclusion

Management's response is noted, audit report will be amended accordingly

ANNEXURE C: ADMINISTRATIVE MATTERS

No matters to report.

UMHLOSINGA DEVELOPMENT AGENCY Company Strategy 2011 / 2012 Financial Year

| KEY PERFORMANCE OBJECTIVE STRATEGY | KEY PERFORMANCE INDICATOR | TARGET | BUDGET | RESPONSIBLE PERSON | ESTIMATED TIME LINES |
|---|---|--|---------------|---------------------------|-----------------------------|
| Building Office Block and Conference Centre at Airport | Infrastructure Plans Design Plans. | Do Site Plan and infrastructure Plan for Property development on the 30 Ha next to Airport | | | July- June |
| | Fund raising | Receive confirmation of funding | | | July- June |
| | Pending Funding Architectural and related professional fees | Receive Plans | R 25,000.00 | CEO\COO | July- June |
| | Pending Funding Construction | Construction Starts | | | July- June |
| Establish Regional Airport | Seek Funding | Applications and outcomes | R 15,000.00 | CEO | July- June |
| | Operations Managing Airport as Going Concern Collect Income and do maintenance. | Report on Maintenance and Financial report | R - | CEO | July- June |
| | Collect date and produce for 24 moths end of Dec 2011 | Report | R - | CEO | July- June |
| | Professional Fees and Plans | Plans received | R - | CEO | July- June |
| | Construction of Airport | Construction Starts | R - | CEO | July- June |
| Industry | Broad Band UMkhanyakude Negotiate the establishment of Infrastructure for Broad Band in UMkhanyakude on N2 R22 and 7 Towns | Receive commitment from DEDT | R 20,000.00 | CEO | July- June |
| Marketing | UMDA and projects | Update of website monthly | R 20,000.00 | CEO | July- June |

| | | | | | | |
|---|--|---|---|------------|--------------------------------|------------|
| | | 1 Annual Investment Dinner in April showing all investment opportunities and engaging stakeholders. | R | 25,000.00 | CEO | July- June |
| | | 6 News Letter E-Format every two months and Printed every 4 months | R | 30,000.00 | CEO | July- June |
| | | 1 Advertising | R | 7,000.00 | CEO | July- June |
| Industry | Jozini Hydro | Licence | R | - | COO | July- June |
| | Film Office | | R | 150,000.00 | Tourism Manager | July- June |
| | Wind Energy UMkhanyakude | Identification of Sites for wind farms | R | 75,000.00 | COO | July- June |
| Tourism | | Launch of the Route | R | 100,000.00 | Tourism Manager | July- June |
| | Route 22 | Marketing Trade Show | R | 50,000.00 | Tourism Manager | July- June |
| | | Marketing Material | R | 30,000.00 | Tourism Manager | July- June |
| | Wow Zulu | Do Site Plan and infrastructure Plan | R | 200,000.00 | Tourism Manager | July- June |
| Business Support and Development | Youth Business Development | Compile Data Base 2000 youth | R | 50,000.00 | Business Support Administrator | July- June |
| | General Business Support UMkhanyakude | Upgrade of 10 SMME's to sustainable entities | R | 50,000.00 | Business Support Administrator | July- June |
| | Business support MTN | | R | 100,000.00 | Business Support Manager | July- June |
| | | | R | 100,000.00 | Business Support Manager | July- June |
| | UMkhanyakude Chamber of Commerce | Training of Board members Finalization of company registration, MOU to be signed | R | 50,000.00 | Business Support Administrator | July- June |

| | | | | | | |
|-----------------------------|--|--|---|---------------------------|-----------------------------------|-------------------|
| | Thembela | 500 Registration | R | 15,000.00 | Business Support Administrator | July- June |
| Agriculture | Nursery Makathini | Set up of nursery in Makathini | R | 100,000.00 | Agricultural Manager\Practitioner | July- June |
| | Packaging Plant | Brand finalization and packaging and operations of Plant | R | 100,000.00 | Agricultural Manager\Practitioner | July- June |
| | Traditional Authority Agricultural Agency | Set of Agency, zoning of land and signing of MOU | R | 100,000.00 | Agricultural Manager\Practitioner | July- June |
| Property Development | Tranquillity | Identification of 3 sites, Land status and leases, generic EIA, GAP analysis | R | 100,000.00 | | July- June |
| | Uhlaza | Finalization of PDA, securing one Industrial site, finalize Contract between Jozini LM, Developer and UMDA | R | 50,000.00 | COO | July- June |
| | Empini | Finalization of Land and EIA | R | 100,000.00 | | July- June |
| Budget Tranche Two | R | 865,000.00 | | Budget Un-Spend T2 | R | 865,000.00 |