

# **NXUBA LOCAL MUNICIPALITY**



## **ANNUAL REPORT 2011/12**

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# **CHAPTER 1: Mayor’s Foreword and Executive Summary**

## **COMPONENT A:**

### **FOREWORD BY THE HONOURABLE MAYOR**

Nxuba Municipality is a local municipality in the Amathole District situated in the Eastern Cape, South Africa and is made up of the towns Adelaide, Bedford and Post Retief. Its administrative seat is in the town of Adelaide. The urban population is mainly located in the two small towns of Adelaide and Bedford. As a low capacity Municipality, in terms of the framework for the implementation of Municipal Finance Management Act No.56 of 2003, the preparation of the Annual Report has become mandatory in respect of the 2011 / 2012 Financial Year. The management has ensured that the annual report is as informative as possible, despite the obvious challenges the municipality has faced.

As the Mayor / Speaker of Nxuba Local Municipality, I acknowledge the size of the shoes that I have had to fill but I am confident that, together with the Council and Municipal Manager, we can bring about an even more positive influence in the lives of our people in both the rural and urban communities..

One of the highlights of 2011 was the visit of the Provincial Executive Committee-Local Government early August 2011. Our engagement with them has resulted in much needed assistance being provided on some of our projects and we are confident that because we now have business plans for all those projects, this will yield positive results. In doing so however, we should endeavour to work together as partners in finding solutions to our common goals. Where there are differences, real or perceived, let us engage in constructive dialogue in order to establish common ground and reach amicable solutions. As the Nxuba Municipality, we will continue to be receptive to constructive criticism and suggestions as well as to remain accountable to the communities.

.....

**HONOURABLE MAYOR**

**Councillor Louisa Leonora “Dolly ” Bruintjies**

## **COMPONENT B: Executive Summary**

### **• MUNICIPAL MANAGER'S OVERVIEW**

The 2011/2012 financial year marks the end of the first year for the Council that was elected in 2011. Several priority areas were identified in Nxuba's Integrated Development Plan (IDP). A number of programmes and projects were also identified in order to achieve the goals as set out in the IDP. In order to implement these programs, the Municipality identified 5 key performance areas for the 2011/12 financial year. These are the following:

#### **➤ KPA 1: Municipal Transformation and Institutional Development**

The organisational structure of the municipality was revised in order to align it to the IDP. The following were also identified as key areas that needed focus: Human Resources, Skills Development, Records Management, Information Technology and Council Support.

Various training sessions were provided to municipal councillors, staff and ward committees in order to capacitate them, thereby enhancing their skills in order to perform their duties effectively. The Municipality also revised and adopted new policies and plans for the institution in order to carry out its mandate, including the Workplace Skills Plan. The internal audit function was co-sourced in the year under review and achievements in this field were noted as the Municipality has been without this function for a considerable period of time, but has now appointed an Internal Auditor.

It is worth mentioning that despite the achievements mentioned above, the Municipality experienced resignations in the following key positions during the year under review: Budget Accountant, Corporate Services Manager and IDP / PMS Officer. These resignations have had a detrimental effect on the implementation of the IDP and it is proving to be a challenge to fill these positions.

#### **➤ KPA 2: Basic Service Delivery and Infrastructure Development.**

The fencing of grave-yards is still on-going. It is expected that all cemeteries in Nxuba will be completely fenced by the end of the 2012/2013 financial year.

It is estimated that about 98% of all households in Nxuba have access to electricity.

The housing sector plan has been developed. In the year under review, two housing projects were still blocked and construction therefore did not take place. The Municipality took part in discussions with the Department of Human Settlements to resolve the matter so that construction can commence.

The Municipality has experienced intermittent breakages in the collection of refuse due to aged plant and equipment. The Municipality has not been able to address the huge backlogs in terms of service delivery due to financial constraints and limited funding from other spheres of government.

➤ **KPA 3: Local Economic Development**

The Municipality has managed to develop and promote its enterprise development by providing business skills training to its SMME's. The focus in the 2011/12 financial year was on agriculture. The Municipality, together with other Government Sectors, provided communities with food gardens and seeds with the aim to improve their livelihood. Funding for LED projects remains a great challenge in this Municipality. Nxuba is now in the process of developing its Local Economic Development Strategy.

➤ **KPA 4: Municipal Financial Viability and Management**

The Municipality has been experiencing a number of challenges in its financial viability. In order to address these challenges the following has been done: Revenue Enhancement Strategy has been developed by the Municipality to improve its liquidity; Budget Reforms have been implemented and Financial, Asset and Supply Chain Management processes are all being reviewed.

The municipality has not been able to service its debt timeously with the Auditor General and also experienced cash flow problems in paying its outstanding creditors as a result of long outstanding debtors. The Credit Control Policy has been reviewed and is being implemented.

➤ **KPA 5: Good Governance and Public Participation**

The outsourced Internal Audit function managed to prepare the Internal Audit Charter, Risk Assessment Register and Risk Management Policy. The audits of the performance information and the traffic section were undertaken. A 3-year internal audit plan was compiled. This strengthened the functioning of the audit committee and it was able to perform its oversight function.

The performance management framework was not reviewed and remains a challenge. Public participation programs have been conducted through the IDP/Budget Road Shows, Ward meetings and Mayoral outreach.

With the election of new Councillors in May 2011, the Municipality has had to establish new Ward Committees. The Municipality has capacitated the newly elected Ward Committees.

## • **MUNICIPAL FUNCTION, POPULATION AND ENVIRONMENTAL OVERVIEW**

Nxuba Municipality comprises an area of 2,749.45km<sup>2</sup>. It is situated in the Winterberg region of the Eastern Cape, under the jurisdiction of Amathole District Municipality.

The Municipal area is bordered by the boundaries of Nkonkobe (East), Lukhanji (North East), Tsolwana (North), Inxuba Yethemba (North West), Blue Crane Route (West) and Makana (South) Municipal areas.

The physical area is characterised by three distinctive settlement and land use patterns, mainly consisting of the following two urban centres:

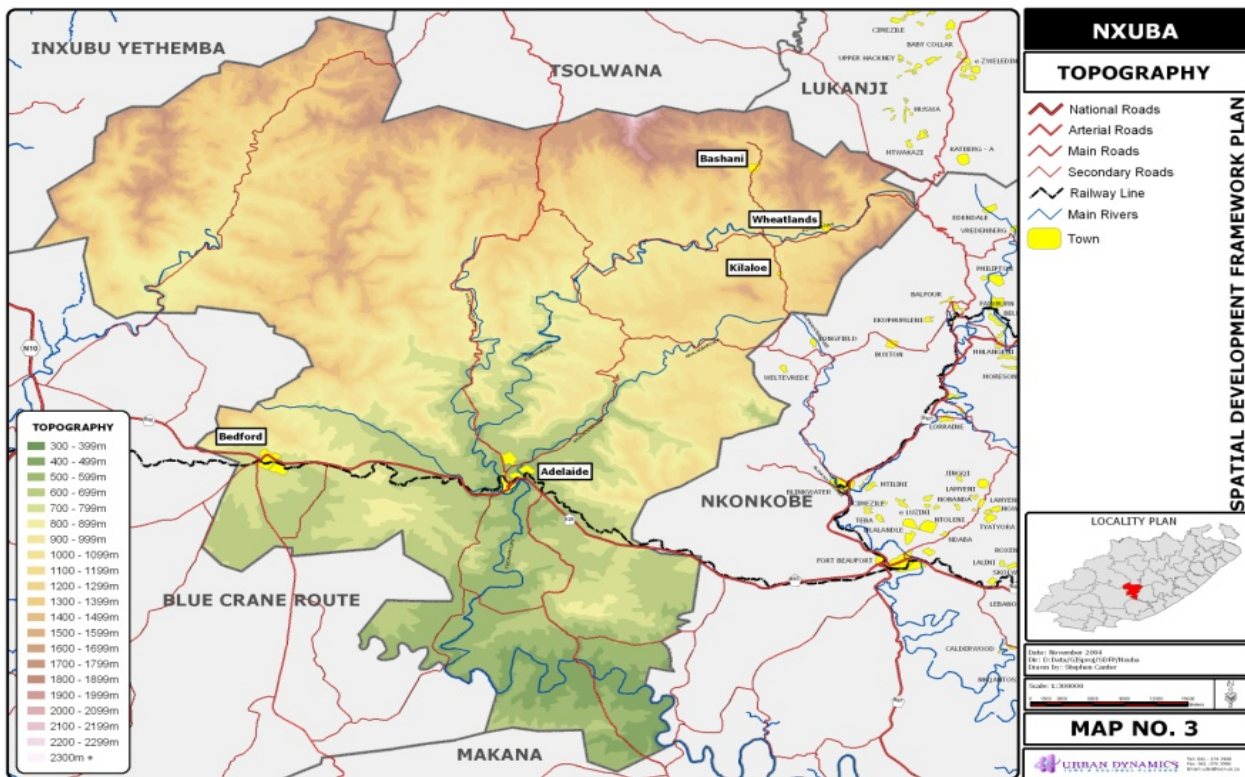
- **Adelaide**  
including Bezuidenhoutville, Lingelethu, Old Lingelethu, New area.
- **Bedford**  
including Goodwin Park, New Goodwin Park, Coloured Valley, Ndlovini, Kayelitsha, Pholar Park, Sizakhele, Nonzwakazi, New Brighton,
- **Post Retief**

Nxuba is also made up of large farming areas mainly situated in the Baviaans River Mountains, The Winterberg, Makazana, Smaldeel and of course, Post Retief. Farming consists of cattle (dairy and beef), sheep, Boer goats, Angora goats and game, namely many species of buck.

The Municipality has a rich historical background dating back to the mid 1700's with many places of interest and heritage sites that need to be preserved.

## Geographic description

The following map represents the geographic location of Nxuba Municipality.



## ➤ DEMOGRAPHIC ANALYSIS

### ⇒ *Demographic trends* ;

- According to the 2007 Community Survey, the population of Nxuba is 21 467. The population density is low with an average population density of 7.8 people per Km<sup>2</sup>. The population is predominantly female (51.5%) and predominantly African (75%). The largest portion (61.9%) of the population is young and under the age of 35 years and 29.6% are still dependants between the ages of 1-14. Only 61.7% of the population is potentially economically active and they fall between the ages of 15-65 with 8.7% of the population aged 65 and over. The high number of dependent children implies a higher burden on the economically active population and organs of state that provide social assistance services. Only 7.6% of the population has some form of disability with more men than women being afflicted. Most of the disabilities are physical.



⇒ **Socio economic trends ;**

- The area is characterised by poor socio economic conditions. Poverty levels are high with 75.9% of the population earning less than R800 per month and technically falling under the poverty line. This is exacerbated by high levels of unemployment and a high number of potentially economically active people not being economically active (60.8%). Low income levels imply a high dependence on social grants and 32.8% of the population is dependent on social grants. Old age pension and child support grants constitute the majority of grants.

Agriculture is the dominant economic activity, followed by community and public sector services with manufacturing and the wholesale and retail trade trailing slightly. The community and public sector services have limited capacity for expansion. The employment sector is dominated by elementary occupations and occupations requiring low qualification levels.

• **SERVICE DELIVERY OVERVIEW**

The Municipal area is characterised by relatively low education and literacy levels and 6.3% of the population over 20 years of age have no education while 36.9% have only some form of primary school education. Only 16% of the population has attained Grade 12, in addition only 7.2% have received a tertiary qualification. There are approximately 13 schools in the urban area of the municipality of which just over 17% are Senior Secondary Schools. There are no tertiary education facilities within the municipal area. Fortunately the University of Fort Hare (Alice Campus) is only 60 km from Adelaide.

Health services are provided by the Department of Health who face many challenges. The Department has several programmes in place namely the Saving Mothers, Saving Babies Project and Integrated nutrition programmes. There are 2 Hospitals, 5 Clinics and 1 Mobile clinic.

The average District HIV/AIDS prevalence is 26%. Although the prevalence has stabilised, HIV/AIDS remains a challenge and the Department is concentrating on the management of anti-retroviral treatment of infected people. There is also a high level of TB in the region which is commonly associated with HIV/AIDS and the Department is also focusing its attention on the management of TB. Primary health care facilities offer HIV/AIDS testing and counselling services,

but there is a shortage of ARV treatment sites with Fort Beaufort Hospital being the closest one in the District.

The Nxuba Local Municipality has zoomed in on Social and Economic Development and Environmental Management of the entire municipal jurisdiction. The Administration has fully implemented the Batho Pele principles adopted by Council. The scene has been set and the momentum is in place for improved service delivery, greater responsiveness and increased accountability.

The broad development strategies and targets are contained in the respective master plans, which, in turn, are enshrined in the IDP. Essentially, the IDP has been compiled with a strong focus on service delivery and infrastructure investment with the aim to achieve strategic development goals. In the process we have pursued a more practical IDP, which is holistic in order to enhance municipal performance. The IDP is practical, in the sense that ideally it focuses on:

- Dealing with service delivery backlogs
- Local Economic Development initiatives
- How to alleviate poverty
- Socio Economic Development
- Spatial Development Framework
- Effective use of scarce resources
- Sustainable Development
- Coordination between all spheres of Government
- Developing municipal capacity within the IDP framework.

The successful implementation of the IDP was achieved through the “bottom-up’ approach,namely:-

- Full community participation
- Strengthening community structures
- Engaging local residents
- Providing accountable, transparent and fair representation
- Ensuring a consultative and sustainable process throughout

The establishment of 4 new Ward Committees will make it a lot easier to respond more speedily to the Community’s needs and aspirations; this provides a firm form of support to ensure fair and equitable service delivery. We place high premium on the communities we serve.

- **ORGANIZATIONAL DEVELOPMENT OVERVIEW**

The Nxuba Local Municipality has an approved Organogram which was reviewed and approved during the year under review. The Organizational Structure of the municipality is comprised of three (3) Directorates and these are namely: Corporate Services, Technical and Infrastructure Services, Budget and Treasure Office. It is the intention of the Municipality to realign these in future with the District Municipality which will then include a new directorate, namely that of Community Services. During the period under review, the municipality had a staff complement of 119.

- **GENERAL AUDITOR'S REPORT**

The draft Management Report is Attached.

## Chapter 2: Governance

### Component A:

- **POLITICAL AND ADMINISTRATIVE GOVERNANCE**

Ordinary Council and Standing Committees Meetings are held according to the calendar of activities adopted by the Council for the 2011/12 financial year. The main purpose of the Ordinary Council Meetings is to deal with the adoption/approval of the Budget, IDP, Policies, By-Laws and also to adopt the recommendations submitted by the Standing Committees for implementation.

Standing Committees deal with monthly reports and activities of all the departments and make recommendations to the Council.

Due to the size of the Municipality, all the councillors attend the Standing Committee meetings.

The following are the Standing Committee of the Council and its functional areas:

- **Community Affairs and Health Committee:**

**Functional Areas:**

This has the following functional areas: Environmental Health, Keeping of animals, Control over nuisance, Trade Licensing, Informal Trading, Liquor Licences, Land Administration, Exhumations, Road Carrier Permits, Land Reform Settlements, Town Planning and Land Use Management.

- **Public Works and Trading Services Committee:**

**Functional Areas:**

This has the following functional areas: Roads and Storm water, Water and sanitation, Cemeteries, Commonage Management, Fire Services, Safety and Security, Traffic Services, Disaster Management, Municipal Infrastructure and Parks and Open Spaces.

- **Finance and Estates Committee:**

**Functional Areas:**

This has the following functional areas: Municipal Administration, Municipal Support Services, Ward Committees, Institutional Performance Management, Annual Reports, Delegation of Functions and Powers, Municipal By-Laws, Legal Matters IDP, Annual and

Adjustment Budgets of the Council, Financial Audit, Investments, Financial reporting and Financial Misconduct.

All Council and Committee resolutions are monitored and implemented. Any challenges that may arise in the implementation of resolutions are reported to Council.

- **ADMINISTRATIVE GOVERNANCE STRUCTURE**

In terms of Municipal Systems Act, 2000, the Municipal Manager is the Head of Administration and is the Accounting Officer.

The following positions were filled during the period under review and these are namely: Municipal Manager, Chief Financial Officer and Technical Services Manager. The positions of Corporate Services Manager and Community Services Manager were vacant for the duration of the financial year. All the senior managers signed performance contracts as required by law.

It is worth noting that during the third quarter of the year under review, the employment contract of the Municipal Manager came to an end and the Eastern Cape Department of Local Government and Traditional Affairs seconded an official, Mr. S. Caga to act as Municipal Manager. The Chief Financial Officer and the Technical Manager were suspended on allegations of misconduct and the disciplinary charges are underway. Officials were appointed to act in the positions during the period of suspensions.

Regular senior management meetings and extended management meetings are held on a regular basis to monitor compliance and implementation of Council Resolutions. A post of Internal Auditor was created in the Organogram and filled to enhance Internal Controls.

## **Component B: Intergovernmental Relations**

The Intergovernmental Relations (IGR) Act explains the principles of IGR and cooperative government providing the basic architecture of IGR structures, procedures and policies for settling intergovernmental disputes. The Mayor \ Speaker resolved to establish an IGR Forum that serves as an instrument for mobilising the distinctive efforts, capacities, leadership, and resources of each sphere towards service delivery and development objectives .

In terms of the functioning of the IGR Forum, the sector departments' participation is very poor. Nxuba has engaged with the Department of Local Government and Traditional Affairs (DLGTA) and Office of The Premier (OTP) to request assistance in this regard to improve the poor attendance by sector departments.

## ➤ **Institutional Arrangement: Operations of the Nxuba IGR Forum**

### **Objectives of Nxuba IGR Forum**

- To establish a formalised process to manage the relationships between the municipalities with regards to service delivery with specific reference to planning implementation, monitoring, reporting and review.
- To facilitate a conducive platform for technical support, knowledge and expertise-sharing in matters of mutual interest.
- To prioritise projects and development initiatives that address community needs.
- To facilitate consistency between the municipality and sector departments that will create the necessary operational intelligence with regards to preventing duplication and wastefully expenditure.

### **Forum composition**

- The Nxuba Municipality IGR is led by the Honourable Mayor\Speaker or her delegated nominee upon her absence.
- The IDP officer provides secretariat support.
- Nxuba IGR Forum is composed of the municipal manager, sector departments, an official from the OTP and DLGTA.

### **Functioning of Nxuba IGR Forum**

- Functions as a consultative forum where issues of mutual interest are discussed.
- Serves to facilitate and promote IGR between all stakeholders.
- To implement any matter arising from District Inter-Governmental Relations, the MEC and OTP.

### **Schedule of meetings**

- This Forum should convene their meetings on monthly basis.
- IGR cluster at least quarterly.

## **Nxuba Local Municipality and Nelson Mandela Bay Metropolitan Municipality (NMBMM) Twinning Partnership**

Nxuba Local Municipality -which is a category “B” Municipality- and Nelson Mandela Bay Metropolitan Municipality -which is a category “A” Municipality, in terms of Section 12 Notice of the Local Government Municipal Systems Act No.117/98, entered into negotiations with the view of the principle of co-operative governance in the year 2005. Both municipalities acted in accordance with a resolution of the Council of the NMBMM and aspired to enhance co-operation between them. Both municipalities agreed to the establishment of an inter-municipal forum wherein both mayors are responsible for co-ordination.

The purpose of the forum is:

- The promotion & facilitation of Inter-Governmental Relations between the municipalities
- To serve as a consultative forum to discuss and consult each other on matters of mutual interest which includes information sharing, best practices and capacity building.

The Memorandum of Understanding was signed in 2006 by both parties. Nxuba Municipality needs to make a follow-up as this is a new council and we need to have a series of meetings to engage new councillors in this matter.

## **Component C: Public Accountability and Participation**

The Municipality is currently drafting a public participation strategy with the assistance of Amathole District Municipality. Various forms of public participation, however, exist in the Municipality namely:

- Attendance of Council meetings by members of the public
- IDP / Budget Meetings
- Annual Mayoral Address
- IGR Meetings
- By-Law formulation process
- Public hearings in particular on demarcation issues

### **➤ Establishment of Ward committees and their functionality**

In Nxuba Municipality, the functioning of ward committee system bodes well for the future of the municipality; the ward committee members are newly elected and will assist the municipality in championing service delivery programs.

The office of the Mayor \ Speaker is engaging ward councillors on the status of their committees in order to hold meetings as per schedules with the communities and reports on the challenges experienced in the various ward.

Nxuba Municipality is in a process of establishing ward councillors with ward committee offices where they will have secretaries. An Induction Workshop for ward committees has been conducted by the OTP and DLGTA in order to capacitate them. Ward Committees must submit their reports on their meetings to the Office of the Mayor \ Speaker and the council for consideration.

Nxuba Municipality does not have a communications unit. This is assigned to an official from the office of the Mayor \ Speaker who liaises with ADM, OTP and DGLTA on various matters.

The Ward Committees were established on the following dates:

- Ward 1: Ward Councillor Sizakele Aubrey Ndyambo  
Date: 15<sup>th</sup> August 2011
- Ward 2: Ward Councillor Louisa Leonora Bruintjies  
Date: 16<sup>th</sup> August 2011
- Ward 3: Ward Councillor Pasika Jack  
Date: 10<sup>th</sup> August 2011
- Ward 4 Ward Councillor Bulelwa Mentoor  
Date: 11<sup>th</sup> August 2011

- **Community Development Workers (CDW) performance monitoring**

The relationship between the administration and the office of the Mayor \Speaker is in a very good standing.

- The CDW submit monthly reports to the province not to the municipality. The Office of the Mayor\Speaker is in the process of signing a Memorandum Of Understanding with the DLGTA in order to have safeguards for monitoring the CDW's reports before their submission to the DLTA.
- CDW's assisted Sector departments when they performed door-to-door campaigns to lobby communities.
- CDW participated in all activities that were done by the municipality. These included IDP/Budget meetings, Imbizo, Mayoral Outreach Programs and other activities organized by the municipality.



Nxuba Municipality developed a system\plan where CDW`s and Ward Committees meet on a monthly basis to submit and discuss progress of various issues\projects. Nxuba Municipality assisted the CDW`s with various resources in order for them to easily perform their tasks.

The CDW`s play a vital role in communicating challenges experienced by the communities to the municipality by ensuring that these issues are addressed. The challenge facing CDW`s is office space but the municipality tries to provide them with space where possible.

- **Communication strategy**

The institution has drafted a communication strategy that seeks to achieve the following objectives:-

- To improve confidence and trust of the community in Nxuba Municipality and its service delivery programs by communicating achievements and showcasing success stories.
- To improve public participation in the affairs of Nxuba Municipality.
- Strengthen strategic partnerships and enhance intergovernmental relations.
- To communicate with Nxuba Municipality`s IDP and Budget programs and projects through community stakeholders` forums.

- **Communication and Platform**

There is a wide range of communication tools that are utilised such as:

- IDP \ Budget Road show
- Mayoral Imbizo`s
- Mayoral Outreach Programs

The Nxuba Municipality honours the campaigns together with sector departments such as 16 Days of Activism Campaign, Tourism Month, Women`s Month, Heritage Month, Extended Public Works Programs and Library Week.

- **Monitoring and Evaluation**

Communication activities are important elements of the Nxuba Communication Strategy in order to ensure that the strategy is being implemented and has its desired impact .The monitoring and evaluation system can provide important feedback on whether messages are being understood as intended and how the communication strategy might need to be adjusted.

The first step in Monitoring and Evaluation is to establish baseline information for the impact areas in the strategy through:

- Ward Committees
- IDP \ Budget Road-shows
- Conducting a Stakeholders Analysis and Perception survey
- Evaluating the worth and effectiveness of the tourism marketing campaign such as Bedford Garden Festival.

## **Component D: Corporate Governance**

- **RISK MANAGEMENT**

Nxuba Municipality Risk Management Committee was established on the 18 June 2012 and it will be effective in the financial year 2012/2013.

- **ANTI-CORRUPTION AND FRAUD**

The Municipality drafted the Fraud Prevention Policy with the assistance of the Department of Local Government. The staff and councillors attended a workshop regarding the policy which was adopted by Council thereafter.

- **SUPPLY CHAIN MANAGEMENT**

The revised Supply Chain Management (SCM) policy introduces a principle of centralization of the procurement processes within a centralized SCM Unit. The SCM Unit will implement the centralization process in order to regulate and monitor compliance and non-compliance with the SCM Policy.

In line with the SCM Regulations and the SCM Guide for Accounting Officers, the municipality plans to have an SCM Unit that will facilitate service delivery and be a custodian of policy through a centralized purchasing management processes and for sound financial management control purposes. The Chief Financial Officer has the responsibility in terms of ensuring the smooth running of the SCM Unit including accountability for fair, transparent, economical and efficient use of government resources and processes as part of good governance. The Nxuba SCM Unit shall have the total responsibility of sourcing quote, adjudicating thereof and subsequently advise end users of the final decision for the requisitioning of the need.

Nxuba Municipality has had, during the year under review, only 2 staff members operating with the assistance of two officials from the Operation Clean Audit team. Staff shortage is one of the major challenges that the municipality is facing.

### **Bid Committee Members**

The Accounting Officer has appointed three bid committees to expedite the implementation of empowerment and development initiatives in the procurement sector of Council business as well as eliminating delays in the implementation of projects, thereby speeding up delivery of services to the community. The bid committee consist of the following three sub-committees:

- Bid Specification Committee;
- Bid Evaluation Committee; and
- Bid Adjudication Committee

The Bid Specification Committee Members the following officials:

**TABLE 1: BID SPECIFICATION COMMITTEE MEMBERS**

<b>BID SPECIFICATION COMMITTEE MEMBERS</b>		
<b>MEMBERS OF THE BID SPECIFICATION COMMITTEE MEMBES</b>	<b>DEPARTMENT</b>	<b>MEMBERSHIP ROLE</b>
F. Takata	Infrastructure Services	Chairperson
R. Du Plooy	Corporate Services	Member
L. Ngodwane	Corporate Service	Member
L. Mtyundyutho	Infrastructure Services	Member
Supply Chain Officer	Finance Service	Observer

The Evaluation Committee Members are the following officials:

**TABLE 2: BID EVALUATION COMMITTEE MEMBERS**

<b>BID EVALUATION COMMITTEE MEMBERS</b>		
<b>MEMBERS OF THE BID EVALUATION COMMITTEE</b>	<b>DEPARTMENT</b>	<b>MEMBERSHIP ROLE</b>
J. Gouws	Technical Services	Chairperson
Z.Mongo	Corporate Services	Member
T. Mangali	Corporate Services	Member
L.Stuurman	Finance Services	Member
S.Makhoba	Finance Services	Member
Supply Chain Officer	Finance Services	observer

The Evaluation Committee Members are comprised of the following officials:

**TABLE 3: BID ADJUDICATION COMMITTEE**

<b>BID ADJUDICATION COMMITTEE MEMBERS</b>		
<b>MEMBERS OF THE BID ADJUDICATION COMMITTEE</b>	<b>DEPARTMENT</b>	<b>MEMBERSHIP ROLE</b>
A.Zindlu	Finance Services	Chairperson
T. Malingatshoni	Technical Services	Member
U. Mngokoyi (MISA)	DBSA/Technical Services	Member
S Hanabe	Municipal Manager's Office	Member
Supply Chain Officer	Finance Services	Observer

The above officials will have to disclose all their financial interest annually and will be cleared at the level of "CONFIDENTIAL" annually.

Bid Committee Members have signed the attached:

- Code of Conduct;

- Oath of Secrecy;
- Declaration of all business interests and
- Rules and procedures governing the functioning of the Bid Committees

A breach of any of the above documents will be dealt with in terms of the Nxuba Local Municipality's Code of Conduct or any other code as prescribed by the Municipality.

- **INTERNAL AUDIT**

The municipality has established a co-sourced Internal Audit Unit in terms of the provisions of the Municipal Finance Management Act (MFMA). The unit provides independent and objective internal audit services that are designed to add value and improve the Municipality's operations. The unit also provides administrative and secretariat support services to the Municipality's Audit Committee. The unit operates in terms of the internal audit charter that has been approved by the Municipality's Audit Committee. To this end, the unit has assisted the municipality with implementing internal controls in all areas through its recommendations made to management.

- **AUDIT COMMITTEE**

**Audit Committee Members and Attendance**

The Audit Committee consists of the members listed hereunder and meets as often as it deems necessary as per the approved terms of reference.

During the period under review, there were 2 normal meetings and 2 special meetings held.

<b>Date of meeting</b>	<b>Ms L Smith (Chairperson)</b>	<b>H Marsberg</b>	<b>L Ntshinga</b>	<b>Ms T Kakaza</b>
28 November 2011	√		√	√
14 March 2012	√		√	
18 May 2012	√	√	√	
13 June 2012		√	√	

**Audit Committee Responsibility**

The Audit committee has fulfilled its responsibilities as stipulated in the Municipal Finance Management Act in conjunction with the Treasury Regulations. The committee has adopted an

appropriate formal charter, which regulates its affairs. It has also discharged its responsibilities in compliance with the approved audit charter.

### **1. The effectiveness of internal control**

In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements and the management report of the Auditor-General South Africa, it was noted that significant matters were reported that indicated material deficiencies in the system of internal control or any deviations there from. Accordingly, we report that the system of internal control over financial reporting for the period under review was not efficient and not effective. Furthermore, management response to the control environment was lacking in many instances. This is evidenced by the fact that many issues raised by the AG and internal audit have not been adequately resolved to date.

The Municipal Manager and the Chief Financial Officer were standing invitees to the Audit Committee meetings, other Senior Managers attended as and when required.

### **2. Submission of in- year management and monthly/ quarterly reports in terms of the Municipal Finance Management Act and the Treasury Regulations.**

The committee was informed by management that the monthly/ quarterly in-year management reports were not compiled and submitted timeously as required in terms of legislation.

### **3. Evaluation of Financial Statements**

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General South Africa and the Accounting Officer.
- Reviewed changes in accounting policies and practices ;
- Reviewed the municipalities compliance with legal and regulatory provisions
- Reviewed significant adjustments resulting from the audit.

#### **4. Internal audit**

We are satisfied that the internal audit function is operating efficiently and effectively and that it has addressed the risks pertinent to the municipality in its audits.

## **Chapter 3: Service Delivery Performance**

### **COMPONENT A: BASIC SERVICES**

#### **➤ Water services**

Amatole District Municipality is the local water service provider. Nxuba municipality however strives to ensure that consumers are given the best possible service by acting in an oversight capacity.

#### **Challenges:**

As water is the function of ADM, this municipality only performs on an agency basis and plays an oversight role. The biggest challenge is the fact that the Adelaide dam does not have sufficient water supply to provide water to all. An additional problem in Bedford is that the Andrew Turpin dam faces the challenge of being able to supply water to all residents if any new houses are built. The severe drought of 2008/9 led to the development of the Fish River pumping scheme which is now pumping water to both towns but it is still not enough. The solution to this problem will be to build the Foxwood dam.

#### **➤ Electricity services**

The municipality is a licensed distributor of electricity in the area of Adelaide and Bedford. The role of Nxuba municipality is to provide electricity to all residents in Nxuba and to provide new connections to newly built houses. The municipality also provides maintenance on the existing electrical reticulation system. It further attends to the complaints of the residents regarding electrical problems. The municipality is also responsible for maintaining all street lights and high mast lights, construct new lines in the towns and to ensure that maintenance is done on the transformers and switch gear. The electrical department consist of two qualified electricians and four assistant electricians.

*Illustration of annual performance as per key performance indicators in electricity services*

	<b>Performance Areas</b>	<b>Total number of household/customer expected to benefit</b>	<b>Target set for the year under review (actual numbers)</b>	<b>Number of househ/customer reached during the FY</b>	<b>Percentage of achievement during the year</b>
1	Number of households with access to electricity services	7021 (this is made up of current households of 6613 + 408 of newly built houses)	408	0	0%
2	Number of indigent households with access to basic electricity services	The exact number of indigent households is dependent on the data cleansing exercise that will be conducted in 2012/13 financial year	N/A	N/A	N/A
3	Number of indigent households with access to free alternative energy sources	The exact number of indigent households is dependent on the data cleansing exercise that will be conducted in 2012/13 financial year	N/A	N/A	N/A

**Challenges:**

The main challenge is electricity theft and the ageing of the electric network. The Municipality requires fund to replace outdated metre boxes and transformers and does not have adequate funding to do so. The Municipality also does not have funds to electrify the newly built houses (408 new houses) in the Bezville area.

➤ **Sanitation**

Sanitation is the function of ADM and the council plays an oversight role to eradicate all the bucket systems and replace it with water borne systems. The biggest challenge is to move people in the



informal settlements to registered sites. The bucket teams consist of two drivers and eighteen general workers. Each town has one supervisor. The sanitation buckets are removed once a week in each town.

**Challenges:**

The challenge is that there is not enough water in both towns. The building of the Foxwood dam will hopefully eliminate this problem.

➤ **Road maintenance**

The Municipality’s role in road maintenance is to maintain all the access roads and streets in Adelaide and Bedford. The municipality also constructs and rehabilitate streets utilizing funds from the Municipal Infrastructure Grants (MIG). The Municipality also provides access to road maintenance services and also construction of access roads. In the 2011/12 financial year no new road infrastructure was constructed. The only activity that took place was the upgrade of Old Lingelethu Access Road and Goodwin Park Access Road.

*Illustration of annual performance as per key performance indicators in road maintenance services*

	<b>Performance Area</b>	<b>Estimated backlogs (actual numbers)</b>	<b>Target set for the year under review (Actual numbers)</b>	<b>Number of km achieved during the financial year</b>	<b>Percentage of achievement during the year</b>
1	Increase access of households to gravel or graded roads for Bedford and Adelaide	N/A no new roads were constructed			
2	KM of road infrastructure requiring upgrade	144.4	3.8KM	1.8KM	47%
3	Planned new road infrastructure actually constructed	N/A nothing new was constructed			

**Challenges:**

The main challenge the Municipality is facing is lack of funds for effective maintenance of roads in Nxuba local area. The other challenge is that Nxuba Municipality is depending on MIG for upgrading and construction of Nxuba access roads.

➤ **Waste management**

The municipality is responsible for the removal of refuse once a week in residential areas and twice a week in business areas. It also has the responsibility to keep the solid waste landfill site clean. The refuse department consist of three supervisor drivers and fifteen general assistants. All community members have access to basic refuse removal. Business areas and the hospital are serviced twice a week.

*Illustration of annual performance as per key performance indicators in waste management services*

	<b>Performance Area</b>	<b>Total number of households/customer expected to benefit</b>	<b>Actual number of households/customers services</b>	<b>Number of households/customer not reached</b>
1	Number of households with access to refuse removal services	6613	6163	450

**Challenges:**

The challenge in Bedford is the overflow of waste water into the river system. In Adelaide the problem will be rectified by building a new filter system and in Bedford the problem can be rectified with the building of a filter system but funding remains a problem.

➤ **Housing and town planning**

All the housing projects were blocked in Bedford since 2007. The only housing project that was able to continue was the 624 housing project in Adelaide. There were 408 houses built in the 2011/12 financial year. There is only one housing officer for both towns. The housing unit is responsible for registering beneficiaries and liaising with the human settlement department.

➤ **Spatial planning**

It is legislated, through the Municipal Systems Act (Act 32 of 2000), that a Spatial Development Framework (SDF) is a core component of the Municipality’s IDP. Once approved the SDF becomes a statutory plan which serves to guide all spatial development and land use management decisions made within the jurisdiction of the Municipality.

➤ **Land use management:**

The draft Spatial Planning and Land Use Management Bill (2011) has recently been circulated for comment and it should be enacted in the near future. The future Land Use Management Systems for the Eastern Cape will be guided by this Act as well as the Provincial Planning legislation that should follow.

The municipality does not have a zoning scheme that will guide land parcels through demarcation and use. At the moment the municipality is faced with a number of encroachments, illegal subdivision, rezoning and an uninformed community with regards to land use control. Going forward, rezoning, subdivision, applications for special consent and relocation of beacons will be enforced and people will know when to apply and for what at the municipal level.

The spatial implications identified through the above processes were then incorporated into the SDF Plan and integrated into the associated guidelines and policy.

➤ **Indigent policy implementation**

The municipality has an adopted Indigent Policy that is reviewed annually in line with the prevailing socio-economic conditions. The policy is also aligned to the Local Government guidelines with the assistance of the local government officials. Communities are consulted in terms of the threshold that qualifies and also the application procedures and where to apply. Consultation with communities is conducted through road shows as well as through the Ward councillor platforms.

An indigent register has been established and is reviewed and updated throughout the year. An indigent steering committee has been established and this committee is responsible for the facilitation of registration of indigent consumers. All indigent consumers registered on the indigent register receive 50 units of electricity every month and their refuse is subsidised as set out in the indigent policy.

## Chapter 4: Organisational Development Performance

### Component A:

#### INTRODUCTION TO THE MUNICIPAL WORKFORCE

➤ **Presentation of the organizational structure**

Attached as annexure: B

➤ **Managing the municipal workforce**

The Municipality adopted its performance management framework in 2008 and it has not been reviewed, however it will be reviewed in the 2012/13 financial year .The PMS is implemented in terms of monthly and quarterly performance reports to the council. During the 2011/12 financial year the municipality did not do the quarterly reviews as per the PMS Framework as there was no dedicated official appointed to perform the PMS related functions. It was only at the end of the financial year that the PMS Manager was appointed.

*Illustration of full time staff quota per functional area*

#### **MM/Section 57 and Line Managers**

	<b>Approved positions</b>	<b>Number of approved and budgeted posts per position</b>	<b>Filled posts</b>	<b>Vacant posts</b>
1	Municipal Manager	1	0	1
2	Corporate Services Manager	1	0	1
3	Chief Finance Officer	1	1	0
4	Technical Services Manager	1	1	0
5	Community Services Manager	1	0	1
	<b>Total</b>	<b>5</b>	<b>2</b>	<b>3</b>

**CORPORATE SERVICES**

1	HR Admin Officer	1	1	0
2	Personnel Clerk	1	1	0
3	LED Officer	1	1	0
4	IDP/PMS Officer	1	1	0
5	Senior Admin Officer	1	1	0
6	Principal Admin Officer	1	1	0
7	Tourism Officer	1	0	1
8	LED Assistant	1	1	0
9	Information Clerk	2	0	2
10	Skills Development Facilitator	1	0	1
11	HR Administration Clerk	1	0	1
12	Admin Clerk Council/Committees	1	0	1
13	Typist	2	2	0
14	Registry/ Archives & Record Clerk	1	1	0
15	Records Management Clerk	1	0	1
16	Operator Receptionist	1	1	0
17	Council Driver	1	1	0
18	Messenger /Cleaner	6	6	0
19	PA (Mayors Office)	1	1	0
20	PA (MM's Office)	1	1	0
21	Internal Auditor	1	1	0
	<b>Total</b>	<b>28</b>	<b>21</b>	<b>7</b>

**Budget and Treasury**

	<b>Approved positions</b>	<b>Number of approved and budgeted posts per</b>	<b>Filled posts</b>	<b>Vacant posts</b>
--	---------------------------	--	---------------------	---------------------

		<b>position</b>		
1	Accountant	1	1	0
2	Controller Expenditure	1	1	0
3	Controller Revenue	1	1	0
4	Controller Budget	1	0	1
5	Supply Chain Management Officer	1	1	0
6	Information Technology Officer	1	1	0
7	Asset Management Clerk	1	1	0
8	Logistic/Procurement	1	1	0
9	Senior Clerk(income)	1	1	0
10	Credit Controller	2	2	0
11	Meter Reader	4	3	1
12	Principal Clerk/Payroll	1	1	0
13	Cashiers	2	2	0
14	Stores Clerk	1	0	1
15	Budget Clerk	1	0	1
16	Senior Clerk (Expenditure)	1	1	0
	<b>Total</b>	<b>21</b>	<b>17</b>	<b>4</b>

### Technical Services

	<b>Approved positions</b>	<b>Number of approved and budgeted posts per position</b>	<b>Filled</b>	<b>Vacant posts</b>
1	ISD Officer	1	0	1

2	Technician	1	0	1
3	Chief Electrician	2	0	2
4	Roads & Stormwater	2	2	0
5	Administration assistant	1	0	1
6	Admin officer	1	0	1
7	Data Capture	1	1	0
8	Electrical Assistant	4	1	3
9	Security Guards	12	6	6
10	General building assistant	4	0	4
11	Backhoe Driver	1	1	0
12	Building maintenance artisans	4	0	4
14	Truck driver	2	1	1
15	Tractor drivers	2	1	1
16	Roads general workers	31	31	0
17	Cemetery caretaker	2	2	0
18	Sport ground	2	1	1
19	Massager Cleaner	2	1	1
	<b>Total</b>	<b>75</b>	<b>48</b>	<b>27</b>

### Community Services

1	Chief traffic officer	1	1	0
2	Traffic officers	3	1	2
3	Chief Liberian	1	0	1
4	Liberian	4	2	2
5	Enatis Supervisor	1	1	0
6	Enatis Clerk	3	1	2

7	Filling Clerk	1	0	1
8	Traffic wardens	4	0	4
9	Assistant Liberians	3	2	1
10	Superintendent waste	2	0	2
11	Coordinate fire fight disaster management	4	0	4
12	Examiner vehicles	1	0	1
13	Refuse collection	11	10	1
14	Driver supervisor	2	2	0
15	Foreman	2	1	1
17	Parks driver	2	2	0
18	Street sweeper	6	5	1
	<b>Total</b>	<b>51</b>	<b>28</b>	<b>25</b>

#### Technical staff registered with professional bodies

<b>Technical services (eg water, electricity)</b>	<b>Total number of technical service managers</b>	<b>Total number registered in the accredited professional body</b>	<b>Total number pending registration confirmation in the accredited professional body</b>	<b>Total number not yet registered in the accredited professional body</b>
Electricity	2	2	0	0
Building inspector	1	1	0	0
Total	3	3	0	0

## Component B:

### CAPACITATING THE MUNICIPAL WORKFORCE

#### ➤ Staff development initiatives during the Financial Year

<b>TYPE OF TRAINING</b>	<b>PERIOD</b>	<b>NO OF TRAINEES</b>	<b>COUNCILLORS</b>	<b>MM/SECTION</b>	<b>TYPE OF TRAINING</b>



Masters in Public Administration	5 day quarterly	1	0	0	Masters in Public Administration
Diploma in public administration and management	1 year	1	0	0	Diploma in public administration and management
MBA Registration	1 year	1	0	1	MBA Registration
BTech in local Government	1 year	1	0	0	BTech in local Government
BTECH Cost and management accounting	1 year	1	0	0	BTECH Cost and management accounting
Diploma H.R Management	1 year	1	0	0	Diploma H.R Management
Diploma in metropolitan Traffic policing	1 year	1	0	0	Diploma in metropolitan Traffic policing
Diploma in advanced law enforcement	1 year	1	0	0	Diploma in advanced law enforcement
Diploma in public administration	1 year	1	0	0	Diploma in public administration
Grade F Traffic section	3 weeks	1	0	0	Grade F Traffic section
Grade F&L Traffic	4 weeks	1	0	0	Grade F&L Traffic
Advanced Diploma Traffic management	1 year	1	0	0	Advanced Diploma Traffic management
Traffic management	1 year	1	0	0	Traffic management

1st year					1st year
Local Labour forum	3days	11	2	0	Local Labour forum
Municipal finance management programme	5 day monthly	7	0	0	Municipal finance management programme

➤ **Levels of education and skills**

Total number of staff	Number of staff without Grade 12	Number of staff with Senior Certificate only	Number of staff with Tertiary/accredited professionals training
119	58	8	53

➤ **Technical Staff registered with professional bodies**

Technical services (e.g. water, electricity etc.)	Total number of technical service manager	Total number of registered in the accredited professional body	Total number pending registration confirmation in the accredited professional body	Total number not yet registered in accredited professional body
Electricity	2	2	0	0
Building Inspector	1	1	0	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>

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

Indicator name	Total number of people (planned	Achievement level during the year under review	Achievement percentage during the year	Comments on the gap

		<b>for) during the year under review</b>			
1	Vacancy rate for all approved and budgeted posts;	10	8	80%	The recruitment processes for Municipal Manager and Corporate Services Manager was not completed before the 2011/12 year end.

2	Number of appointments in strategic positions (Municipal Manager and Section 57 Managers)	3	0	0%	One post was not included in 2011/12 budget while the two other posts were not filled due to delay in recruitment process.
3	Number of Section 57 Managers including Municipal Managers who attended at least 1 skill development training course within the FY	3	3	100%	n/a
4	Number of Managers in Technical Services with a professional qualification	3	3	100	n/a
5	Number of staff that have undergone a skills audit (including competency profiles) within the current 5 year term	120	120	100%	n/a
6	Number of councillors who attended a skill development training within the current 5 year term	8	8	100%	n/a
10	Number of staff with disability	0	0	0%	n/a

## Component D:

### MANAGING THE MUNICIPAL WORKFORCE EXPENDITURE

#### ➤ Trends on total personnel expenditure

### MANAGING THE MUNICIPAL WORKFORCE EXPENDITURE

Financial year	Total number of staff	Total approved operating budget	Personnel expenditure salary	Percentage of expenditure
2007/08	148	31,540,979	12,302,611	39.01%
2008/09	153	39,734,340	15,047,480	37.87%
2009/10	140	45,219,816	16,522,811	36.54%
2010/11	144	44,334,542	17,120,000	38.6%
2011/12	134	42,686,479	16,744,047	39.2%

#### List of Pension Funds to which employees belong to:

Names of pension fund	Number of members	Municipal Contribution/Employee
Cape Joint Retirement	25	23.6%
SALA	46	20.78%
Municipal Employee Pension Fund	3	18%
SAMWU Provident fund	35	18%

#### List of Medical Aids to which employees belong to:

Names of medical Aids	Number of members	Municipal Contribution/Employee
LA Health	9	60%
Hosmed	1	60%
Bonitas	18	60%
SAMWU Med	24	60%
Key Health	3	60%

#### ➤ Employee Equity Plan Employment Equity Plan

The Municipality operated with an employee on 'Acting' capacity for the Corporate Services Manager. The Municipal Manager, Chief Financial Officer, Infrastructure Manager were all black

males. The challenge with Corporate Services Manager was the expiry of contract. The Municipality had a challenge to employ people with disabilities as recruitment process does not reach out to them hence none of them apply to the Municipality. The adverts also do not specify that people with disabilities are encouraged to apply.

The Municipality did not reach the employment equity targets set in terms of women and disability representation at Senior Management. At middle Management level there were 20 employees consisting of 12 males and 8 females. This is made up of 15 were blacks, 2 of mixed race and 3 whites. The percentage of women at Senior Management was affected by the resignation of Chief Financial Officer who was the only female. It can be concluded that there is serious under representation of women and disabled people at Senior Management level.

## Chapter 5: Financial Performance

### Component A:

- **Statement of Financial Performance**

The ratios of operating and capital ratios are calculated against the total budget. General expenses constitute the highest percentage of the budget following employee costs. Repairs and maintenance constitutes the lowest percentage.

<b>OPERATING AND CAPITAL RATIOS</b>	
<b>Detail</b>	<b>%</b>
Employee cost	30.10%
Repairs and maintenance	3.40%
General expenses	36.80%
Capital expenditure	23%

- **Grants**

The total budget of Nxuba Municipality is R 55 540 729 which is constituted by 54.9% of revenue from grants and 45.1% from its own revenue. Nxuba Municipality derives its own revenue from rates, refuse, electricity and other revenue. At the year-end; the actual grants received were R28.7m, against budget of R31.1m.

The own income received at year end was more than what was anticipated due to interest received that was not budgeted for.

DETAIL	ORIGINAL BUDGET	ADJUSTMENT BUDGET	ACTUAL
<b>Income</b>			
Grants	30,536,000.00	31,136,000.00	28,711,965
Own income	25,004,729.00	25,273,469.00	26,683,150
<b>Total</b>	<b>55,540,729.00</b>	<b>56,409,469.00</b>	<b>55,395,115</b>
<b>Less expenditure</b>	55,540,729.00	56,409,469.00	68,767,929
<b>Net total</b>	<b>0.00</b>	<b>0.00</b>	<b>(13,372,814)</b>

- **Cash flow Management and Investment**

#### Annual performance as per key performance indicators in financial viability

	Indicator name	Target set for the year R(000)	Achievement level during the year R(000)	Achievement percentage during the year
1	Percentage expenditure of capital budget	12 854 250	1 518 701	11.8%
2	Salary budget as a percentage of the total operational budget	16 744 047	16 319 172	97%
3	Total actual trade creditors as a percentage of total actual revenue	22 376 032	17 061 524	65.7%
4	Total municipal own revenue as a percentage of the total actual budget	25 004 729	26 683 150	106%
		<b>Consumer Debt for the 2010/11 (R'000)</b>	<b>Consumer Debt for the year 2011/12 (R'000)</b>	<b>Reduction in percentage during the year</b>
5	Rate of municipal consumer debt reduction	42 816 942	49 433 826	-15%
6	Percentage of MIG budget appropriately spent	9 669 000	7 747 302	80%
7	Percentage of MSIG budget appropriately spent	750 000	896 928	119%

Arrears in property rates and service charges

Source	Current	30 days	60 days	90+days	Total
Rates	228 415	103 275	8 621 978	0.00	8 953 668
Electricity	1 235 484	212 727	4 549 104	0.00	5 997 315
Refuse	569 088	312 621	17 967 879	0.00	18 849 588
Other	683 065	45 682	14 904 508	0.00	15 633 255
<b>Total</b>	<b>2 716 052</b>	<b>6745 305</b>	<b>46 043 469</b>	<b>0.00</b>	<b>49 433 826</b>

## Component B:

### OTHER FINANCIAL MATTERS

#### ➤ Meeting of Donors' requirements in respect of conditional grants

**MIG:** Conditions - Prioritise basic residential infrastructure for water, sanitation, refuse removal, streets lighting, solid waste, connector and internal bulk infrastructure, and other municipal infrastructure like roads, sport and recreation and community facilities in line with the MIG policy framework (2004) and/or other government sector policies existed before the amalgamation of various grants into MIG

The projects budgeted for the 2011/12 financial year have been delivered with the exception of Goodwin Park Access road and Goodwin Park Hall. These projects have been delayed due to Geotechnical issues and have been rolled over to the 2012/13 financial year and as such an application has been made to Treasury to roll over the amount of R 3 109318 to ensure completion of these projects.

**FMG:** Conditions – Establishment of a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel and appointment of at least five interns over a multi-year period. Conduct an on-going review, revision and submission of the MFMA implementation plans to National Treasury to address weaknesses in financial management. Acquisition of a financial management system that can produce multi-year budgets, in-year reports, SDBIP, annual reports and automation of financial management practices.



A Budget and Treasury Office has been established and five interns appointed. These funds have further been spent in the implementation of MFMA and in addressing weaknesses in financial management. The entire grant amount allocated for the 2011/12 financial year has been spent.

**MSIG:** Conditions - Submission of a signed activity plan in a prescribed format with detailed budgets and timeframes for the implementation of prioritised measurable outputs. Municipalities must adhere to the local government turnaround strategy.

Conditions have been met and 99.47% of the allocation has been spent in 2011/12 financial year.

**Long term contracts entered into by the municipality in the 2011/12 financial year:**

<b>Supplier's Name</b>	<b>Commencement Date</b>	<b>Type of Contract/services rendered</b>	<b>Amount committed</b>
Aurecon	04 May 2012	Nxuba municipality Grap compliant fixed asset register	R 572 445.00
Kabuso Internal Auditors	05 November 2010	Internal Audit Service	R 243 040.00
Kilimia JV Superfecta Trading 426	02 April 2012	Construction of Goodwin Park Access Road	R 3 057 516.74
Rakoma and Associates	11 June 2012	Preparation of Annual financial Statements	R 449 944.00
CAB Holding	29 October 2010	Printing and Mailing of accounts	R 72 880.92
Artwicar Engineering Consulting	11 April 2011	Design of Goodwin Park Community Hall	R 295 982.15
Impendulo Design Architects	29 April 2009	Design of Municipal offices and Council Chamber (Phase1&2)	R 1 411 888.88
J.L Goliath Construction	29 April 2009	Construction of municipal offices and council chamber (phase 1)	R 5 276 223.48

Beacon Consulting Engineering	20 October 2010	Design of Old Lingelethu Access Road	R 223 948.13
Amadwala 363 Construction	01 March 2011	Construction of Old Lingelethu Access Road	R 3 525 057.85
Beacon Consulting Engineering	20 October 2010	Design of Goodwin Park access Road	R 259 553.71
Nashua	01 June 2009	Printing and photocopy machines	R 7 371.24(monthly instalment)
Konica minolta	01 June 2009	Printing and photocopy machines	R 11 588.52 (monthly instalments)
Zawebs	26 August 2011	Create, host and support a World Wide Website	R 3 659.00
Resilient Servers and Networks	14 June 2011	Procurement of File Server, Backup Tape Library Unit, Software and Annual Maintenance for the Nxuba Municipality	R 339 391.57

## Chapter 6: Auditor-General Audit Findings

The draft Audit Management Report is attached

### APPENDICES

#### Appendix A: Committee and Committee Purpose

The following are the Standing Committee of the Council and its functional areas:

➤ **Community Affairs and Health Committee:**

**Functional Areas:**

This has the following functional areas: Environmental Health, Keeping of animals, Control over nuisance, Trade Licensing, Informal Trading, Liquor Licences, Land Administration, Exhumations, Road Carrier Permits, Land Reform Settlements, Town Planning and Land Use Management.

➤ **Public Works and Trading Services Committee:**

**Functional Areas:**

This has the following functional areas: Roads and Storm water, Water and sanitation, Cemeteries, Commonage Management, Fire Services, Safety and Security, Traffic Services, Disaster Management, Municipal Infrastructure and Parks and Open Spaces.

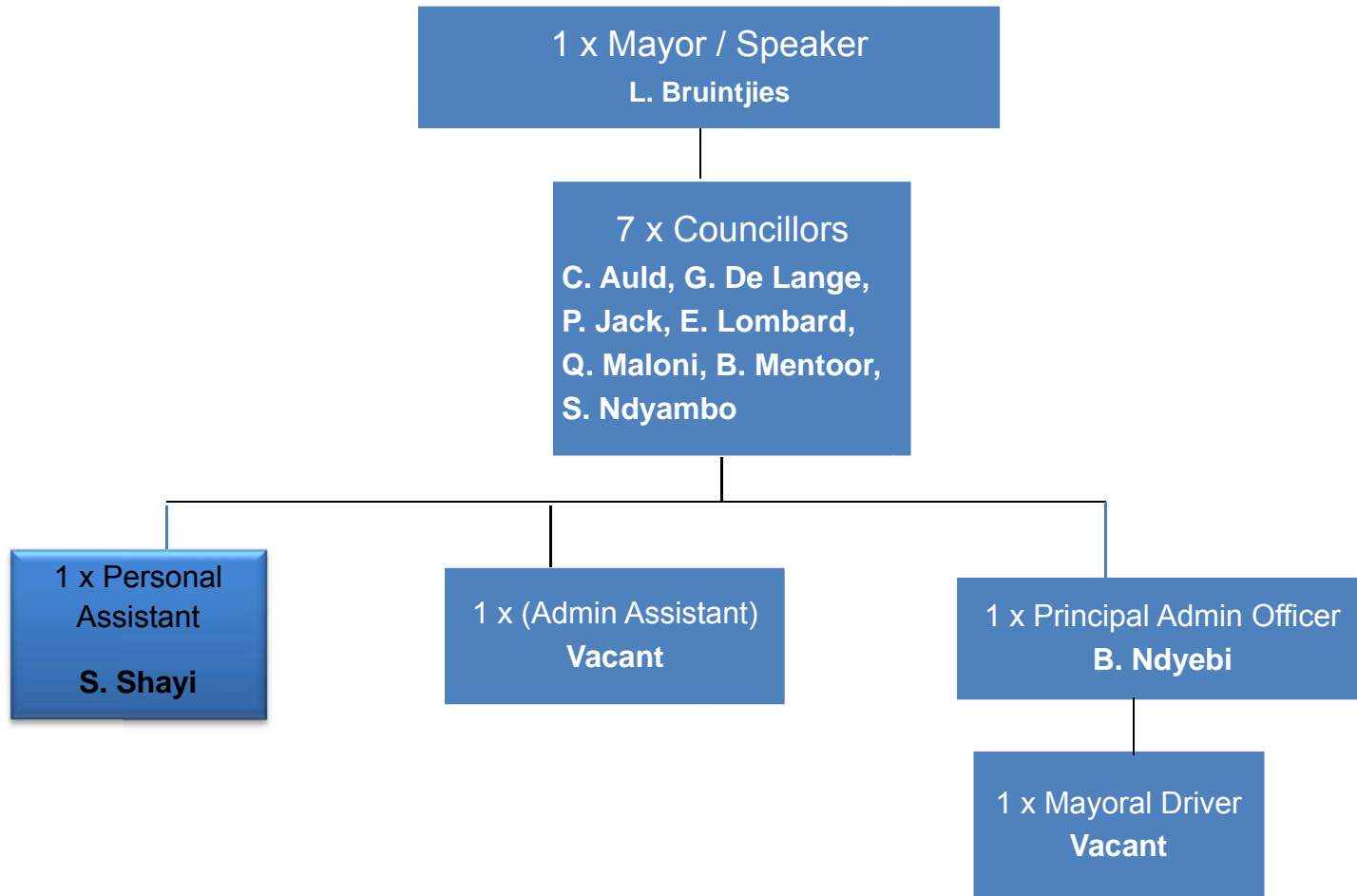
➤ **Finance and Estates Committee:**

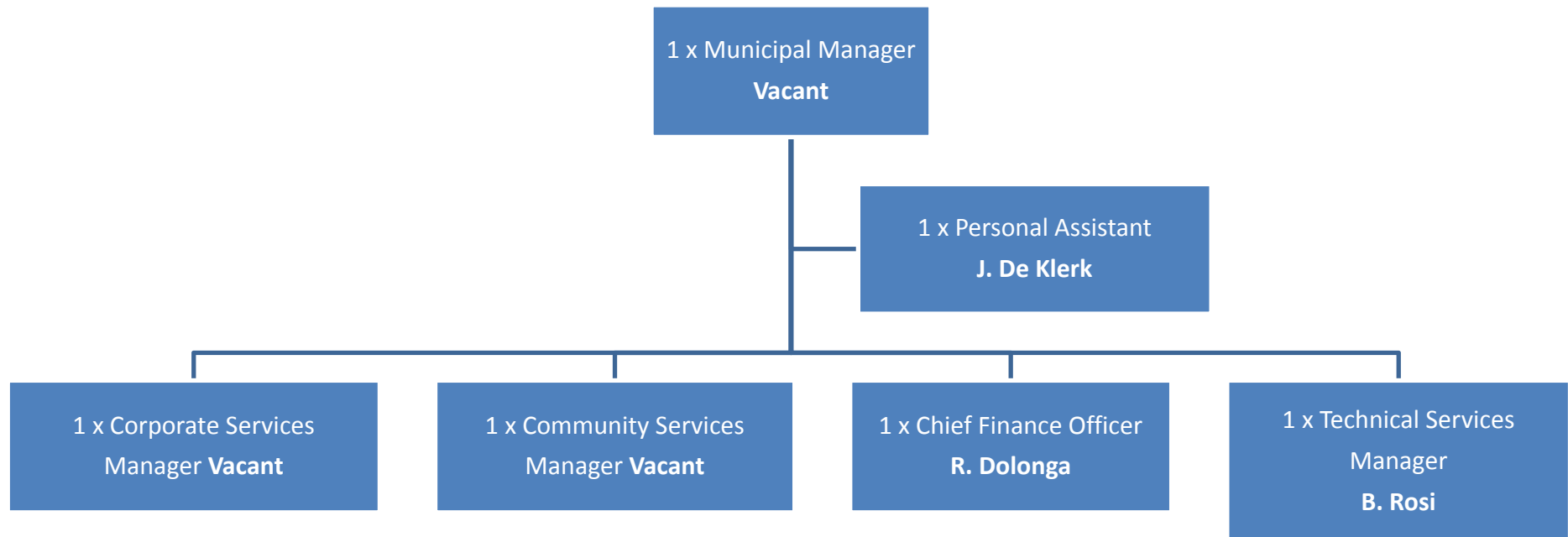
**Functional Areas:**

This has the following functional areas: Municipal Administration, Municipal Support Services, Ward Committees, Institutional Performance Management, Annual Reports, Delegation of Functions and Powers, Municipal By-Laws, Legal Matters IDP, Annual and Adjustment Budgets of the Council, Financial Audit, Investments, Financial reporting and Financial Misconduct

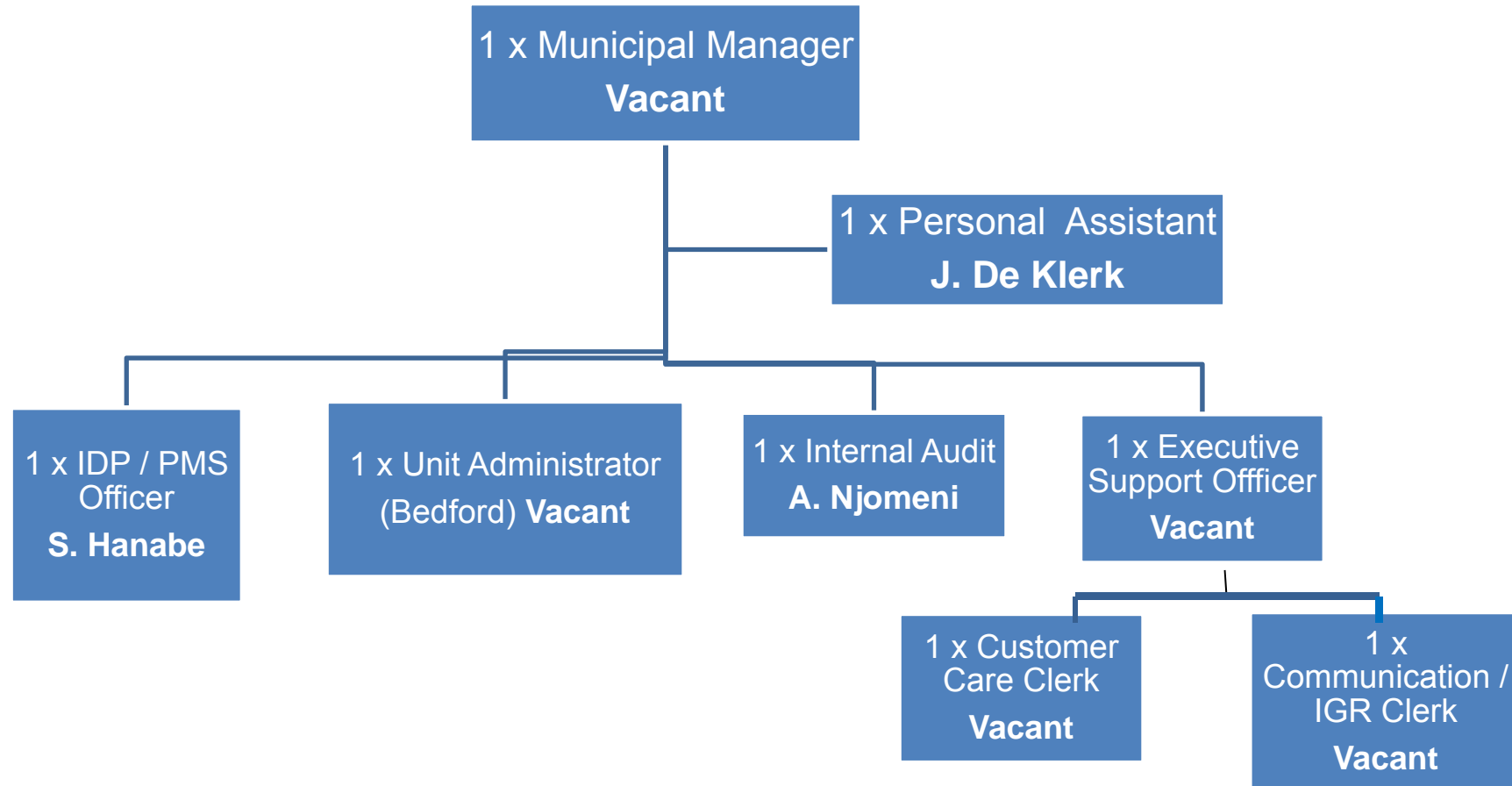
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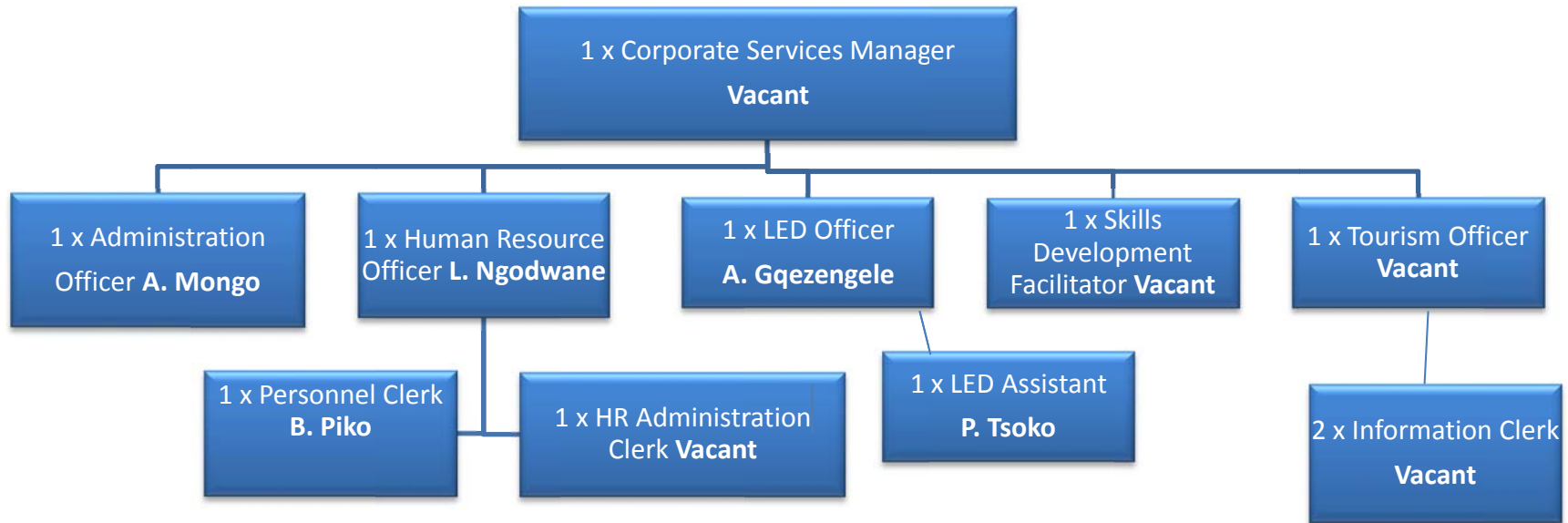
## COUNCIL

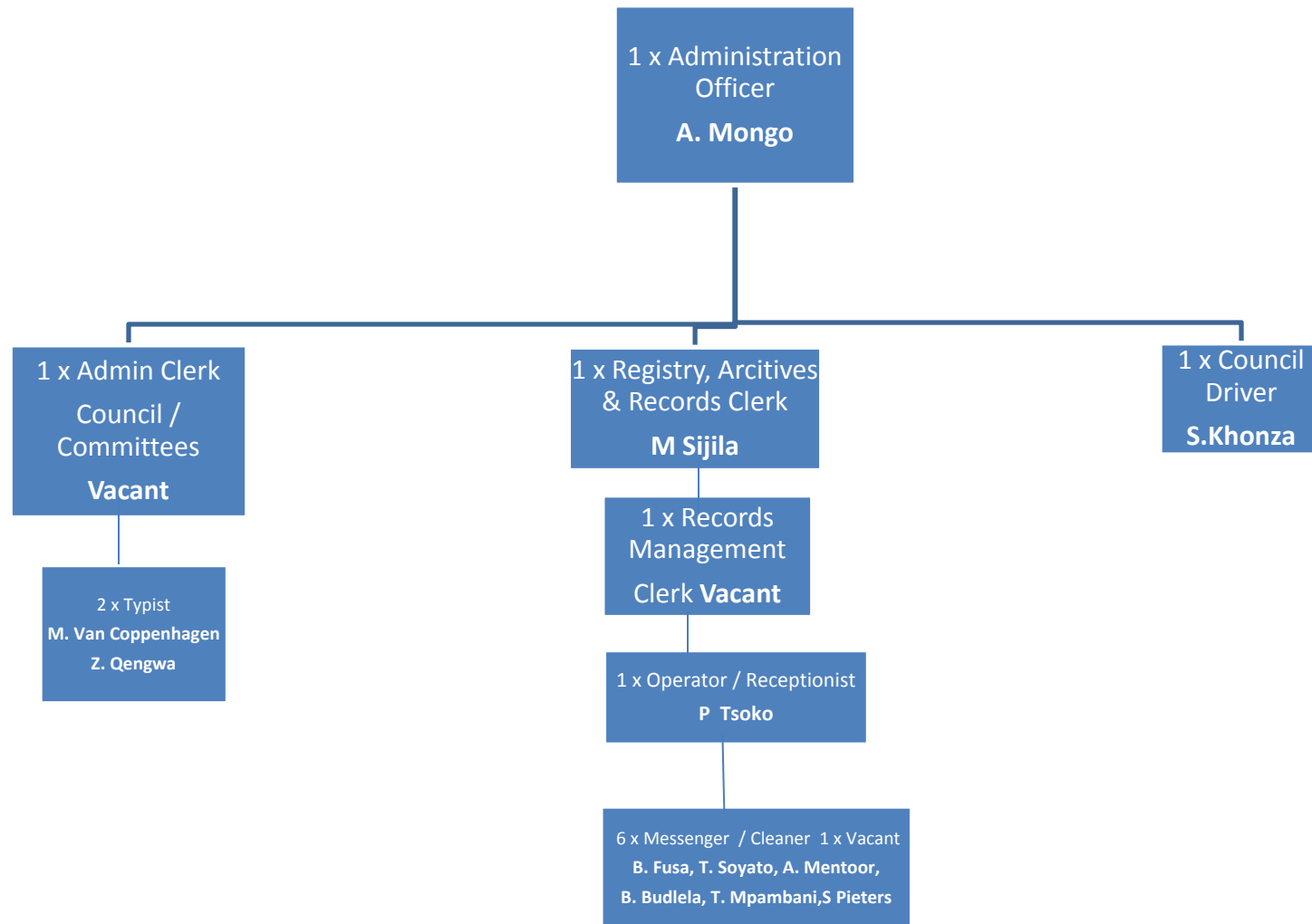




## MUNICIPAL MANAGERS OFFICE

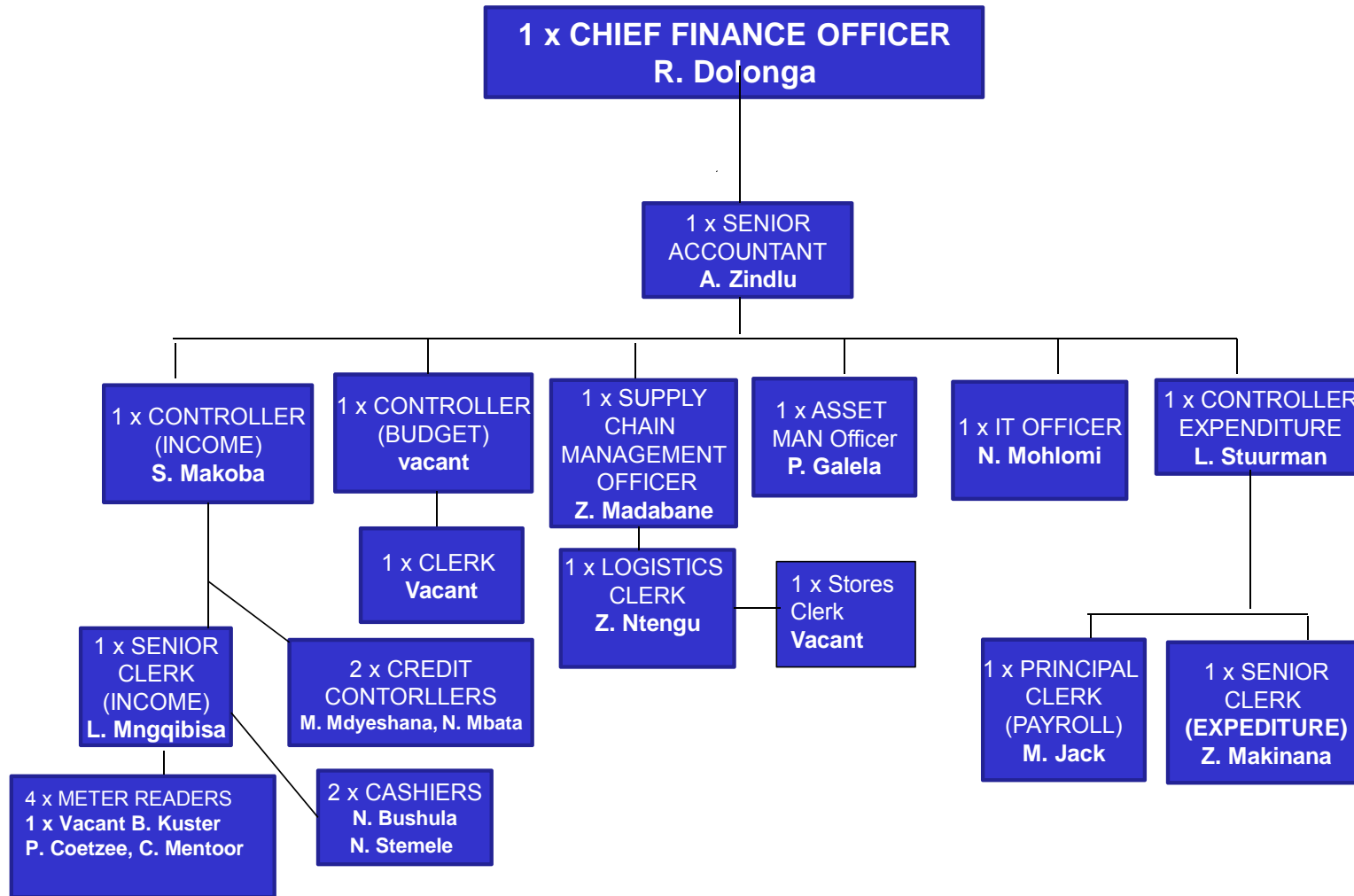


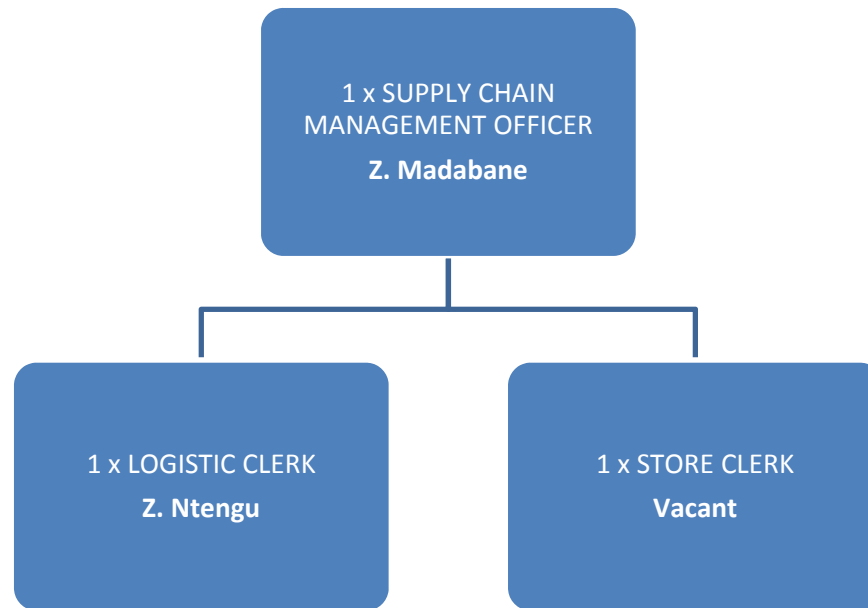




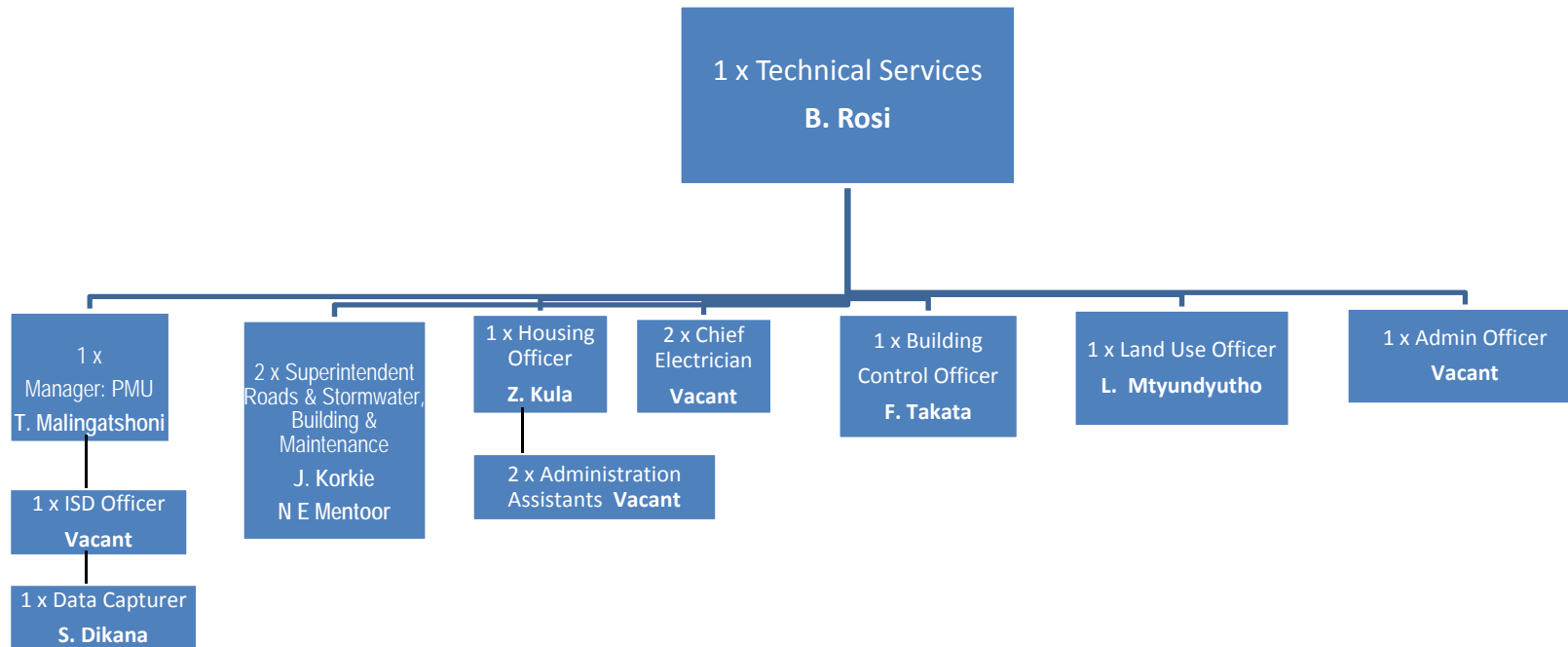


# DEPARTMENT: BUDGET AND TREASURY OFFICE

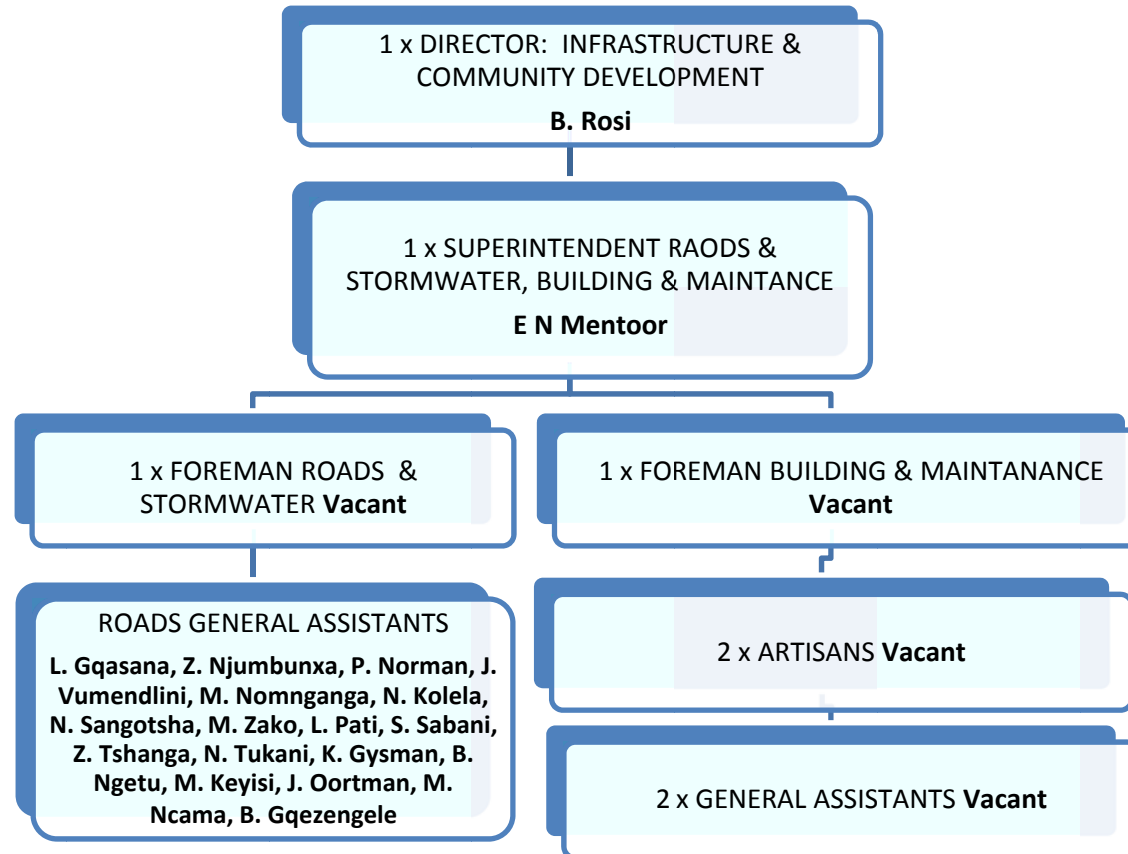




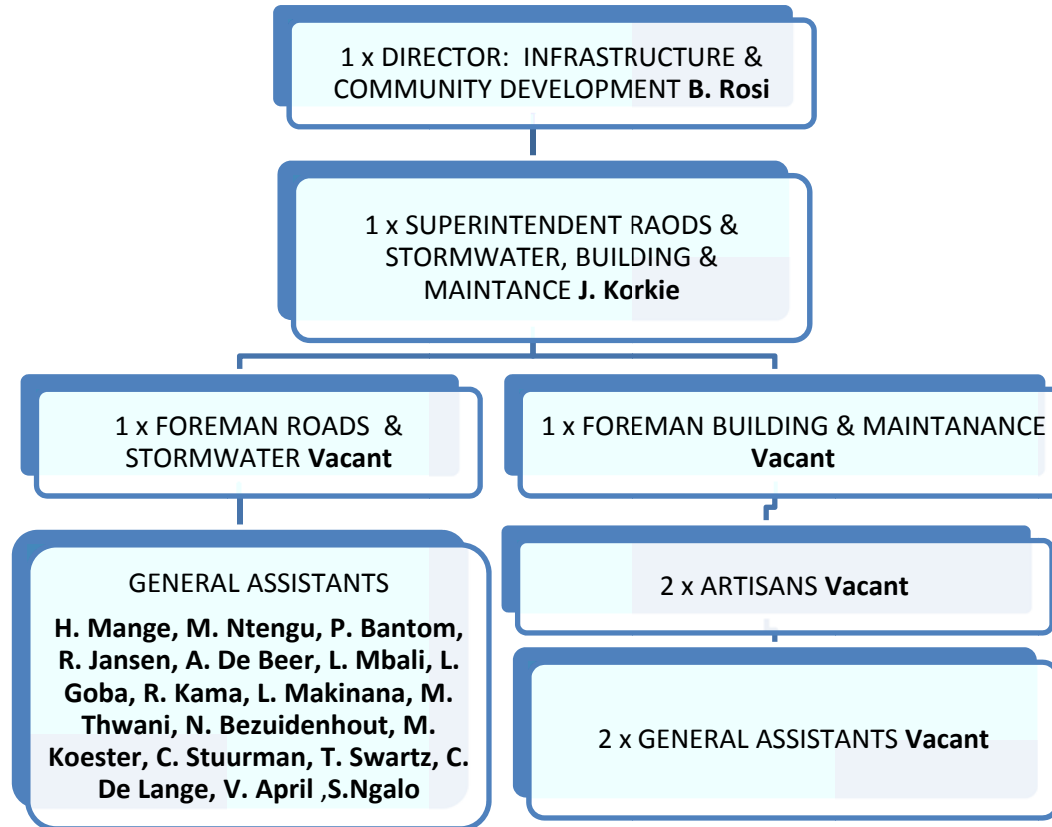
# INFRASTRUCTURE DEPARTMENT



# TECHNICAL DEPARTMENT BEDFORD UNIT



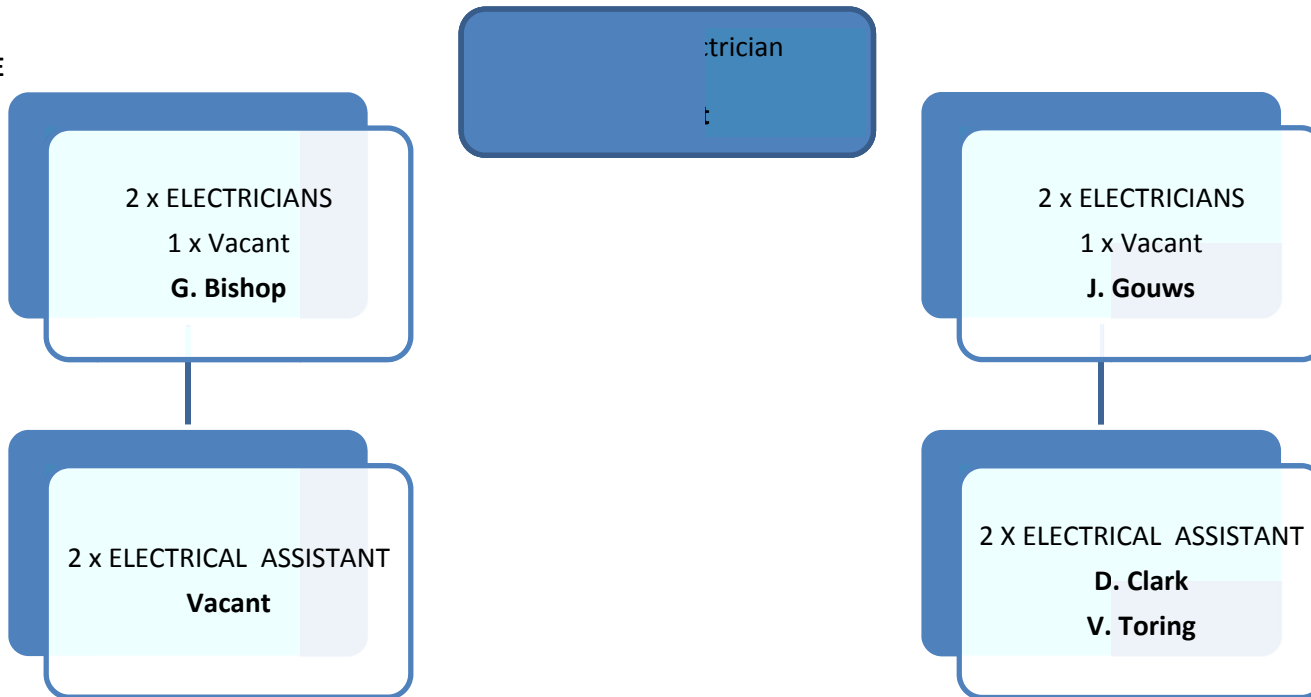
# TECHNICAL DEPARTMENT ADELAIDE UNIT



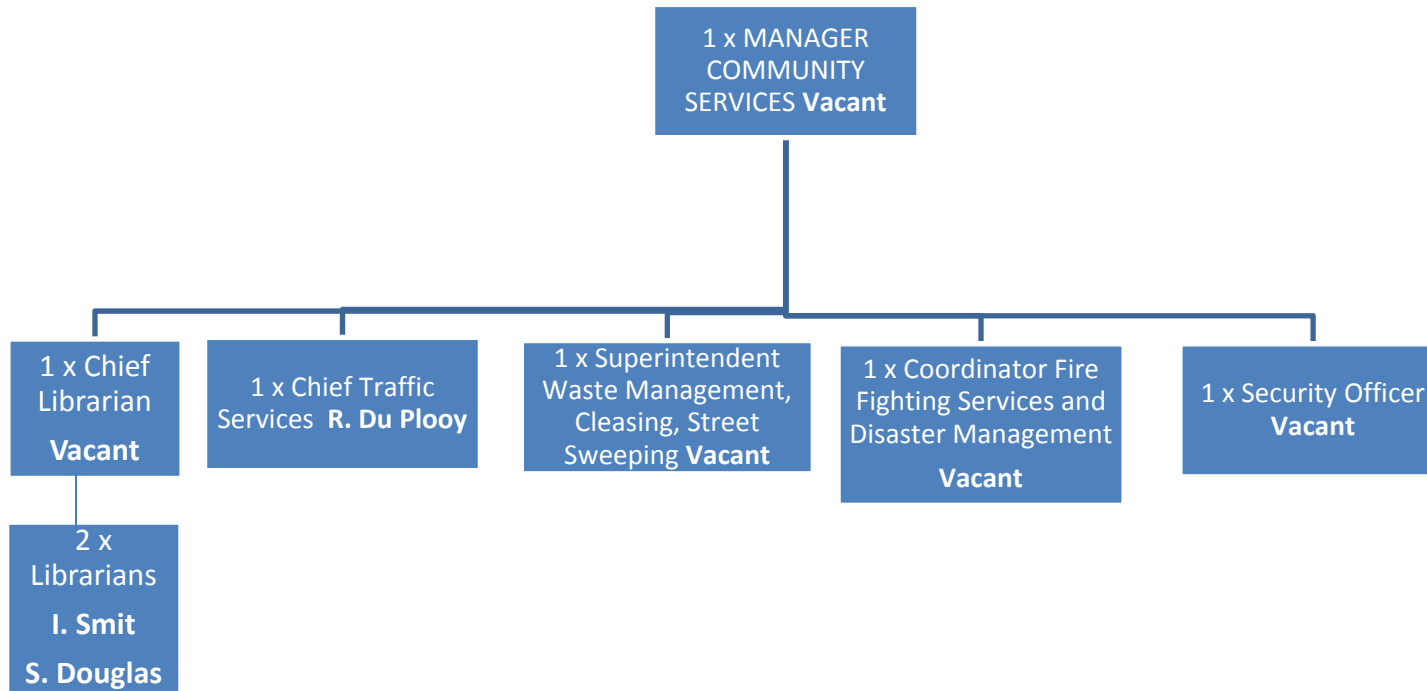
# TECHNICAL DEPARTMENT

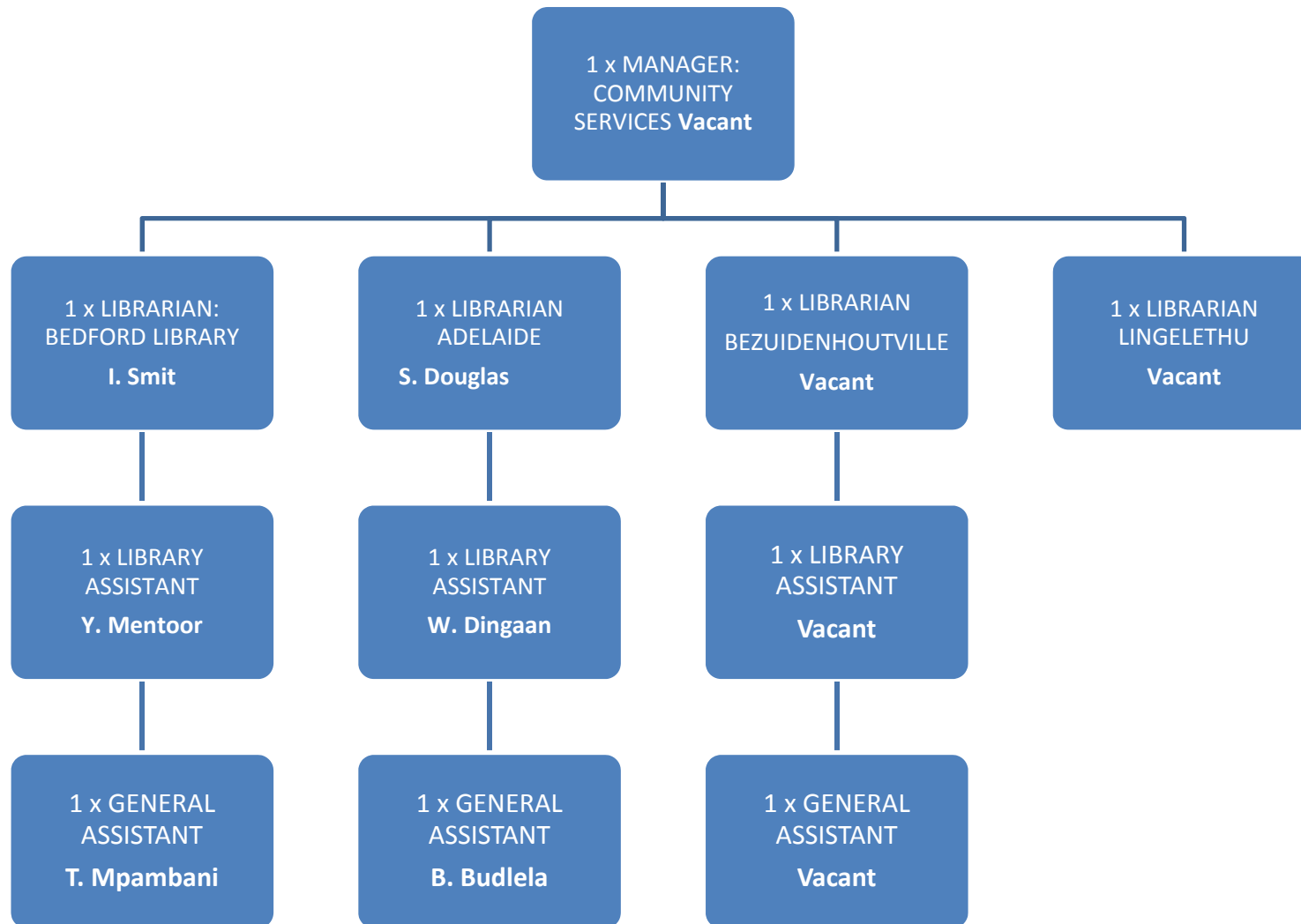
## SECTION: INFRASTRUCTURE

ADELAIDE

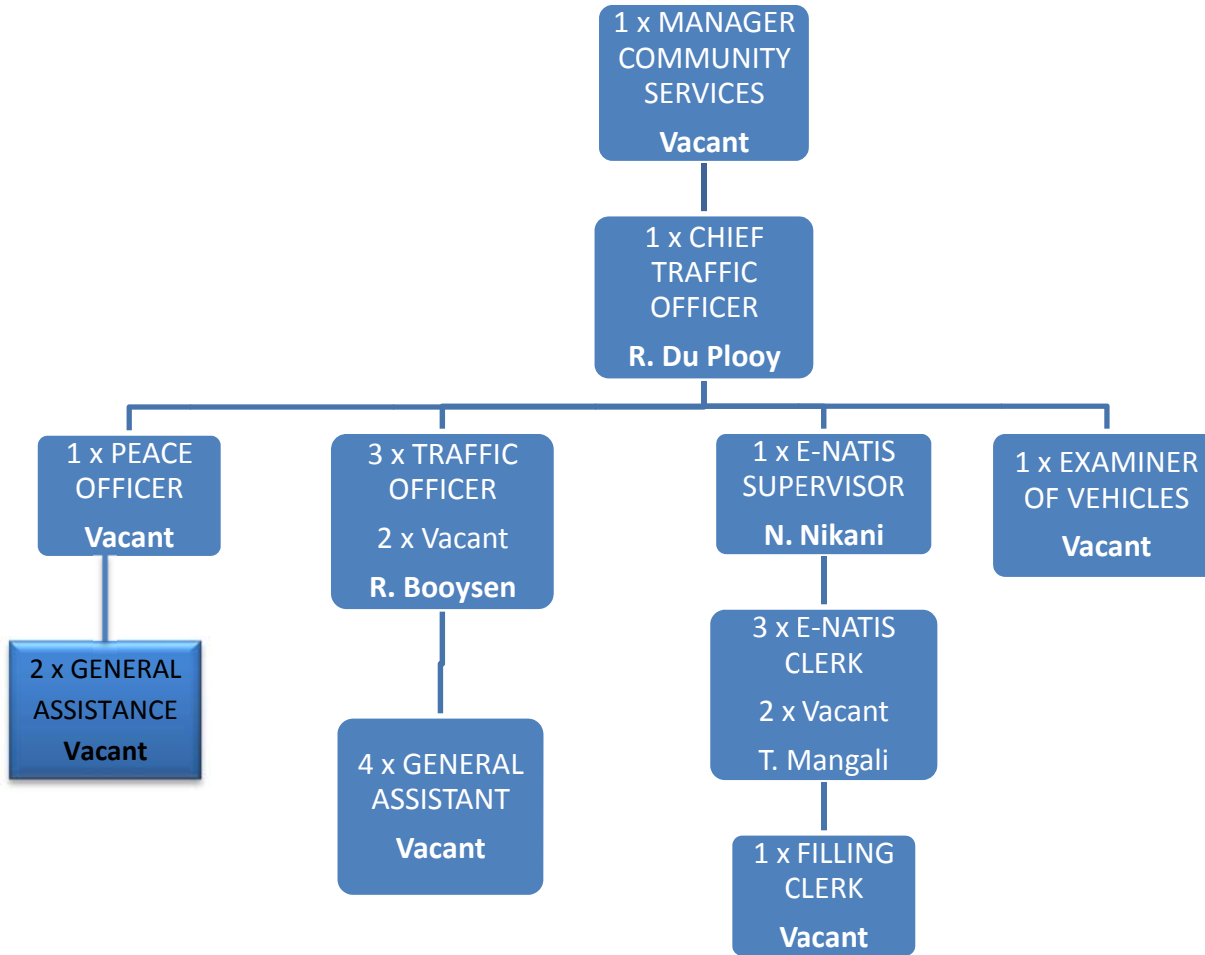


# COMMUNITY SERVICES

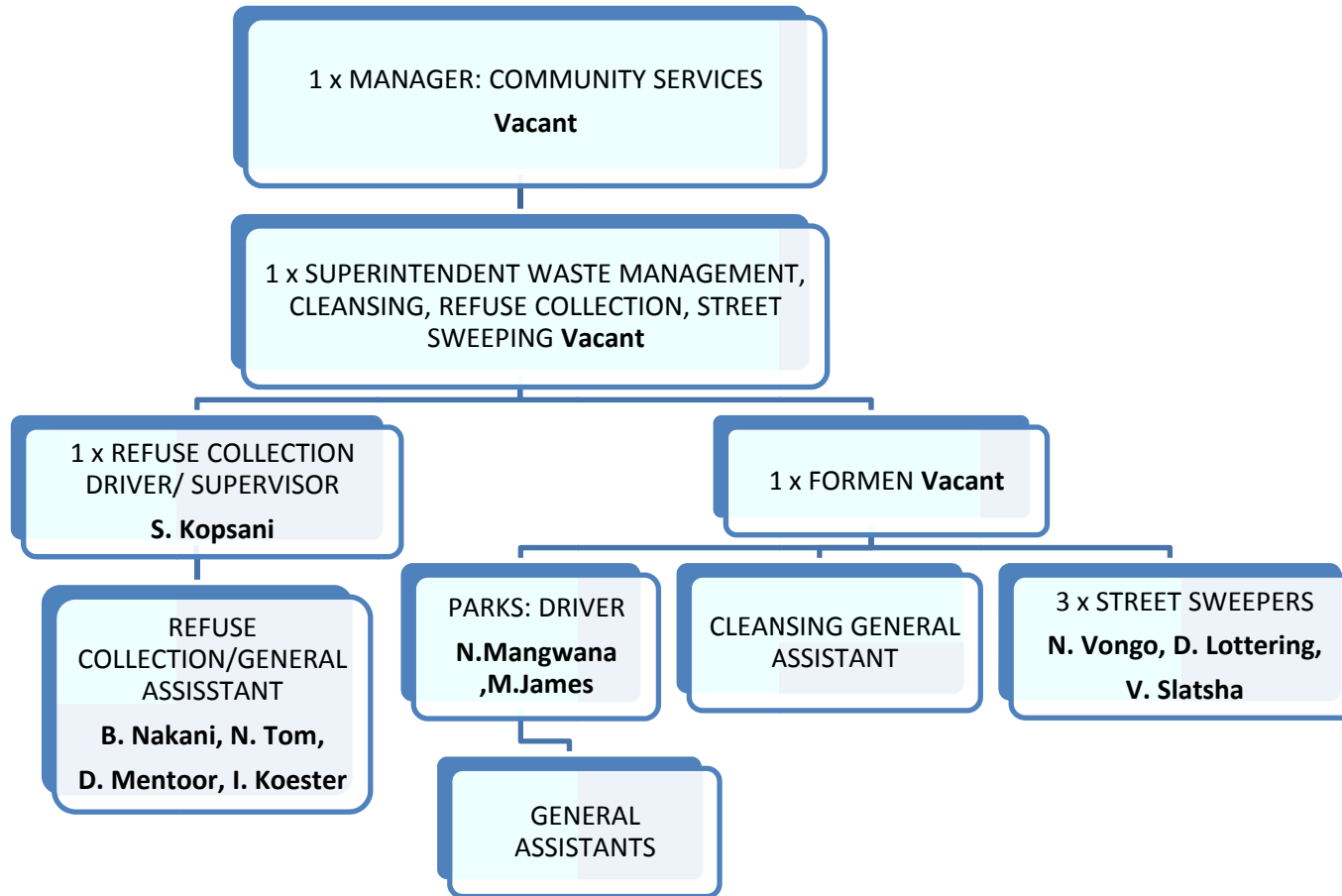




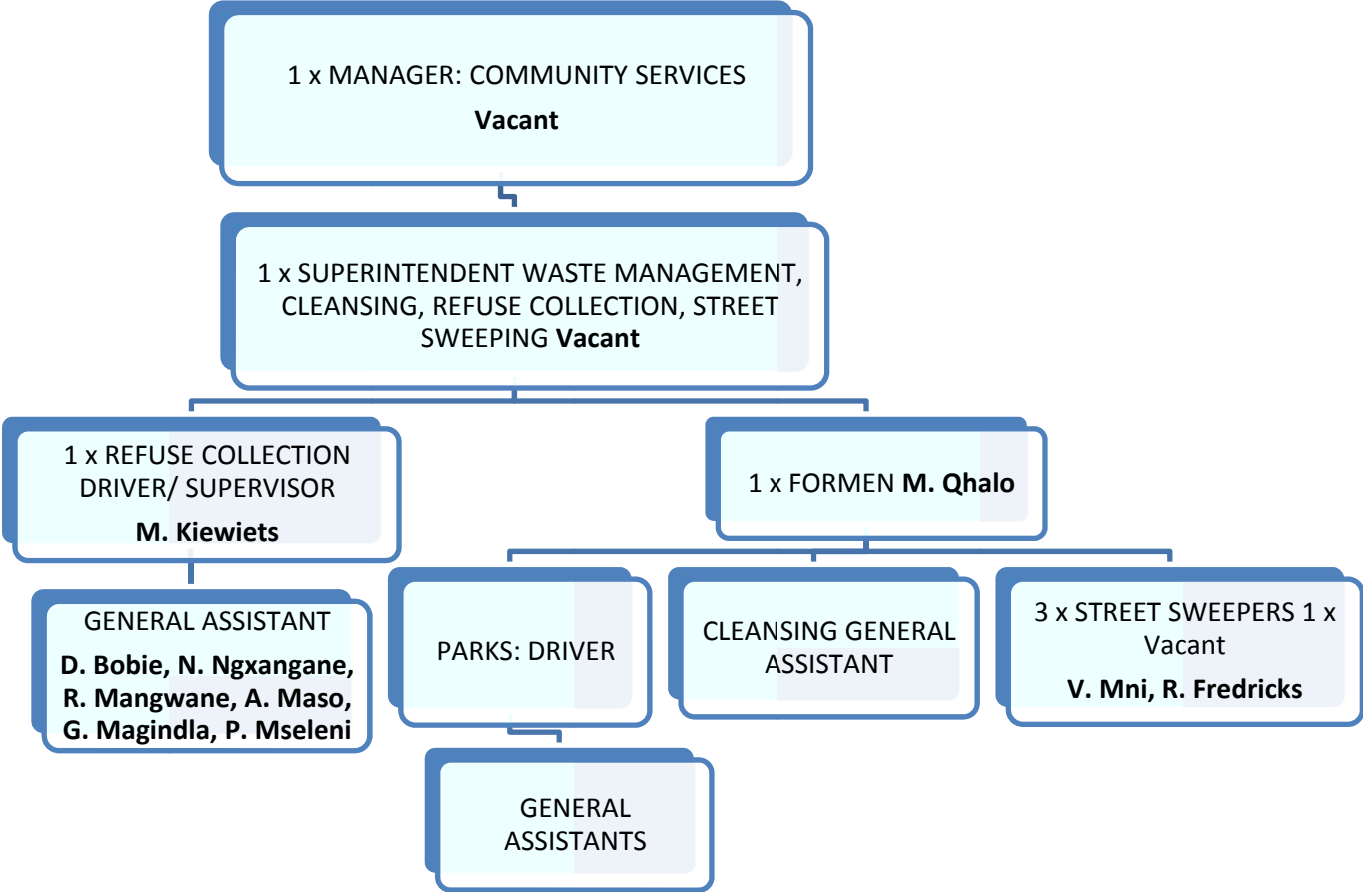




# BEDFORD



**ADELAIDE**



1 x MANAGER COMMUNITY SERVICES Vacant

1 x Security Officer  
Vacant

12 x Security Guards  
8 x Vacant  
V. Jack, L. Dyobela,  
L. Mata, M. Sopile .P  
Goni,L,Citeko



## Appendix C: Ward Information

The Ward Committees were established on the following dates:

- Ward 1: Ward Councillor Sizakele Aubrey Ndyambo  
Date: 15<sup>th</sup> August 2011
- Ward 2: Ward Councillor Louisa Leonora Bruintjies  
Date: 16<sup>th</sup> August 2011
- Ward 3: Ward Councillor Pasika Jack  
Date: 10<sup>th</sup> August 2011
- Ward 4: Ward Councillor Bulelwa Mentoer  
Date: 11<sup>th</sup> August 2011

## Appendix D: Municipal Audit Committee

During the period under review, there were 2 normal meetings and 2 special meetings held.

Date of meeting	Ms L Smith (Chairperson)	H Marsberg	L Ntshinga	Ms T Kakaza
28 November 2011	√		√	√
14 March 2012	√		√	
18 May 2012	√	√	√	
13 June 2012		√	√	

## Section 2: Annual Financial Statements

<b>NXUBA MUNICIPALITY</b>			
<b>STATEMENT OF FINANCIAL POSITION</b>			
as at 30 June 2012			
	Note	2012 R	2011 R
<b>ASSETS</b>			
<b>Current assets</b>		<b>15 574 420</b>	<b>24 869 207</b>
Cash and cash equivalents	1	983 200	3 789 914
Trade receivables from exchange transactions	2	7 725 240	13 487 074
Trade receivables from non-exchange transactions	2	1 252 361	3 542 310
Inventories	4	299 690	-
Call investments	5	1 685 189	1 368 378
Investments - fixed deposits	6	15 580	14 000
VAT receivable	12.1	3 613 160	2 667 531
<b>Non-current assets</b>		<b>223 710 786</b>	<b>44 423 536</b>
Property, plant and equipment	7	203 354 570	44 044 657
Intangible assets	8	48 127	19 277
Investment property carried at cost	9	20 308 088	359 602
<b>Total assets</b>		<b>239 285 206</b>	<b>69 292 744</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>		<b>25 590 036</b>	<b>18 318 974</b>
Trade and other payables	10	17 061 524	13 093 895
Consumer deposits	11	360 615	340 265
Leave accrual	13	2 101 924	1 195 396
Current portion of unspent conditional grants and receipts	14	6 065 974	3 658 228
Operating lease liability	15	-	31 189
<b>Total liabilities</b>		<b>25 590 036</b>	<b>18 318 974</b>
<b>Net assets</b>		<b>213 695 170</b>	<b>50 973 770</b>
<b>NET ASSETS</b>			
Accumulated surplus / (deficit)		213 695 169	50 973 770
<b>Total net assets</b>		<b>213 695 169</b>	<b>50 973 770</b>

**NXUBA MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ending 30 June 2012

	Note	2012 R	2011 R
<b>REVENUE</b>			
<b>Revenue from non-exchange transactions</b>		<b>31 650 549</b>	<b>27 076 575</b>
Property rates	16	2 823 284	2 600 131
Fines		115 300	13 624
Government grants and subsidies	21	28 711 965	24 462 819
<b>Revenue from exchange transactions</b>		<b>23 744 566</b>	<b>24 066 168</b>
Service charges	17	17 934 677	16 426 056
Rental of facilities and equipment	18	113 479	131 242
Interest earned - external investments	19	83 891	43 849
Interest earned - outstanding receivables	20	2 043 335	2 347 394
Licences and permits		1 733 399	1 550 872
Other income	22	1 835 785	3 566 755
<b>Total revenue</b>		<b>55 395 115</b>	<b>51 142 742</b>
<b>EXPENDITURE</b>			
Employee related costs	23	16 319 172	16 417 343
Remuneration of councillors	24	1 867 769	1 303 219
Bad debts	25	13 816 184	-
Depreciation and amortisation expense	25	8 452 386	-
Repairs and maintenance		550 537	283 090
Finance costs	26	-	1 320
Bulk purchases	26	17 506 057	12 787 127
Grants and subsidies paid	28	1 518 701	1 383 854
General expenses	29	8 737 122	13 405 642
<b>Total expenditure</b>		<b>68 767 929</b>	<b>45 581 594</b>
<b>Surplus / (deficit) for the year</b>		<b>(13 372 814)</b>	<b>5 561 148</b>



**NXUBA MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
as at 30 June 2012

	Note	Accumulated Surplus/(Deficit) R	Total: Net Assets R
			-
<b>Opening balance as previously reported as at 30 June 2010</b>	32	39 706 892	39 706 892
Prior period error	33	5 705 732	5 705 732
Prior year adjustments - Transfer of water account to ADM district			-
<b>Restated opening balance 2011</b>		<b>45 412 624</b>	<b>45 412 624</b>
Surplus / (deficit) for the year		5 561 146	5 561 146
<b>Balance at 30 June 2011</b>		<b>50 973 770</b>	<b>50 973 770</b>
<b>GRAP 17 Implementation</b>		<b>182 792 443</b>	<b>182 792 443</b>
Prior period adjustment		<b>(6 698 229)</b>	<b>(6 698 229)</b>
Surplus / (deficit) for the year		(13 372 814)	(13 372 814)
<b>Balance at 30 June 2012</b>		<b>213 695 169</b>	<b>213 695 169</b>

**NXUBA MUNICIPALITY****CASH FLOW STATEMENT**

as 30 June 2012

	Note	2012 R	2011 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Sale of goods and services		15 994 353	16 404 406
Grants		28 711 965	24 462 819
Interest received		83 891	43 849
Taxation		384 831	-
Other receipts		3 682 664	5 248 869
		<b>48 857 703</b>	<b>46 159 943</b>
<b>Payments</b>			
Employee costs		18 186 942	17 720 562
Interest Paid		-	1 320
Supplier payments		28 312 418	27 859 712
	30	<b>46 499 359</b>	<b>45 581 594</b>
<b>Net cash flow from operating activities</b>		<b>2 358 344</b>	<b>578 349</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, plant and equipment		-7 196 253	-6 878 265
Purchase of Intangible assets		-28 850	-
Increase in fixed Investments		1 580	-
<b>Net cash flows from investing activities</b>		<b>-7 223 523</b>	<b>-6 878 265</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase/(Decrease) in Bank Overdraft		-	-610 328
Decrease in Lease liability		-31 189	-
Increase in Unspent conditional Grants		2 407 745	8 146 533
<b>Net cash flows from financing activities</b>		<b>2 376 556</b>	<b>7 536 205</b>
<b>Net increase / (decrease) in net cash and cash equivalents</b>		<b>-2 488 623</b>	<b>1 236 289</b>
<b>Net cash and cash equivalents at beginning of period</b>		<b>5 172 292</b>	<b>3 936 003</b>
<b>Net cash and cash equivalents at end of period</b>		<b>2 683 669</b>	<b>5 172 292</b>

## 1.1. BASIS OF PREPARATION

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 Directive 5 “Determining the GRAP Reporting Framework”, issued by the Accounting Standards Board and in a manner required by the MFMA.

The standards are summarised as follows:

No.	Reference	Topic
1	GRAP Framework	Framework for the preparation and presentation of financial statements
2	GRAP 1	Presentation of financial statements
3	GRAP 2	Cash flow statements
4	GRAP 3	Accounting policies, changes in accounting estimates and errors
5	GRAP 4	The effects of changes in foreign exchange rates
6	GRAP 5	Borrowing costs
7	GRAP 6	Consolidated and separate financial statements
8	GRAP 7	Investments in associates
9	GRAP 8	Interests in joint ventures
10	GRAP 9	Revenue from exchange transactions
11	GRAP 10	Financial reporting in hyperinflationary economies
12	GRAP 11	Construction contracts
13	GRAP 12	Inventories
14	GRAP 13	Leases
15	GRAP 14	Events after the reporting date
16	GRAP 16	Investment property
17	GRAP 17	Property, plant and equipment
18	GRAP 19	Provisions, contingent liabilities and contingent assets
19	GRAP 100	Non-current assets held for sale and discontinued operations
20	GRAP 101	Agriculture
21	GRAP 102	Intangible assets
22	IFRS 7	Financial instruments: Disclosures
23	IAS 19	Employee benefits
24	IAS 32	Financial instruments: Presentation

25	IAS 39	Financial instruments: Recognition and measurement
26	IPSAS 20	Related party disclosures
27	IPSAS 21	Impairment of non-cash generating assets
28	GAMAP 9.29 - .35 & .39 - .54*	Revenue
29	IGRAP 1**	Applying the probability test on initial recognition of exchange revenue
30	IFRIC 4	Determining whether an Arrangement contains a Lease
31	Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
32	Directive 2	Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions
33	Directive 3	Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities
34	Directive 4	Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
35	Directive 5	Determining the GRAP Reporting Framework
36	ASB guide 1	Guideline on Accounting for Public Private Partnerships

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3.

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

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

The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

In terms of Directive 4: "Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities" issued by the Accounting Standards Board the municipality has adopted the transitional provisions for the following GRAP Standards:

GRAP 12 – Inventories;

GRAP 13 – Leases;

GRAP 16 – Investment Property;  
GRAP 17 – Property, Plant and Equipment;  
GRAP 19 – Provisions, Contingent Liabilities and Contingent Assets;  
GRAP 100 – Non-current Assets Held for Sale and Discontinued Operations;  
GRAP 102 – Intangible Assets.

## **1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

## **1.3. GOING CONCERN ASSUMPTION**

The municipality executes the Government's mandate and will continue to do so in the future with the assistance of the South African Government. In light of this, these annual financial statements have been prepared on a going concern basis.

## **1.4. COMPARATIVE INFORMATION**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material 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.

## **1.5. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

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

<b>GRAP 18</b>	Segment Reporting
<b>GRAP 21</b>	Impairment of non-cash-generating assets
<b>GRAP 23</b>	Revenue from Non-Exchange Transactions (Taxes and Transfers)
<b>GRAP 24</b>	Presentation of Budget Information in Financial Statements
<b>GRAP 25</b>	Employee costs

<b>GRAP 26</b>	Impairment of cash-generating assets
<b>GRAP 103</b>	Heritage Assets
<b>GRAP 104</b>	Financial instruments

## 1.6. **AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include material errors, and the treatment of assets financed by external grants.

## 1.7. **LEASES**

### 1.7.1 ***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. Transfer of ownership is not required to be recognised as a finance lease. 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 and 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 de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

### **1.7.2 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 de-recognition 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.

### **1.8. UNSPENT CONDITIONAL GRANTS**

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

### **1.9. PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resource 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 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.

(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.

(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.

## **1.10. EMPLOYEE BENEFITS**

### ***(a) Pension obligations***

The municipality contributes to the following post retirement funds - Cape Joint Pension fund, Cape Joint Retirement fund, SALA, SAMWU Retirement fund, municipal employee pension fund and councillors pension funds which provides for retirement benefits to its employees.

### ***(b) Accrued Leave Pay***

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

## **1.11. PROPERTY, PLANT AND EQUIPMENT**

### ***1.11.1 Initial Recognition***

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the



location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

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

### **1.11.2 Subsequent Measurement**

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years. Progress towards full compliance with the requirement of GRAP 17 will be disclosed in the annual financial statements for the next three years. The municipality is undergoing process of implementing a full GRAP compliant fixed asset register and it is expected to be finalised by the end of 2010/2011 financial year.

### **1.11.3 De-recognition**

Items of property, plant and equipment are derecognised when the asset is disposed 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.

## **1.12. INTANGIBLE ASSETS**

### **1.12.1 *Initial Recognition***

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software. 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:

- 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.

### **1.12.2 Subsequent Measurement**

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years. Progress towards full compliance with the requirement of GRAP 17 will be disclosed in the annual financial statements for the next three years. The municipality is undergoing process of implementing a full GRAP compliant fixed asset register and it is expected to be finalised by the end of 2010/2011 financial year.

## **1.13. INVESTMENT PROPERTY**

### **1.13.1 Initial Recognition**

Investment property includes property (land or a building, or part of a building, or both land and 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.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

The cost of self-constructed investment property is the cost at date of completion.

### **1.13.2 Subsequent Measurement**

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years. Progress towards full compliance with the requirement of GRAP 17 will be disclosed in the annual financial statements for the next three years. The municipality is undergoing process of implementing a full GRAP complaint fixed asset register and it is expected to be finalised by the end of 2010/2011 financial year.

### **1.13.3 De-recognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## **1.14. INVENTORIES**

### **1.14.1 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 non-recoverable 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.

### **1.14.2 Subsequent Measurement**

The municipality has taken the advantage of directive 4 therefore the municipality is not yet required to do subsequent measurement on inventories. The municipality is undergoing process of implementing a full GRAP complaint inventories and it is expected to be finalised by the end of 2010/2011 financial year.

## **1.15. FINANCIAL INSTRUMENTS**

Financial instruments recognised on the statement of financial position include trade and other receivables, cash and cash equivalents, and trade and other payables.

### **1.15.1 *Initial Recognition***

Financial instruments are initially recognised at fair value.

### **1.15.2 *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.

#### **1.15.2.1 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 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.

#### **1.15.2.2 Trade and Other Receivables**

For amounts due from debtors carried at amortised cost, the municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the municipality determines that no objective evidence of impairment exists for an individually assessed financial asset,

whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

#### **1.15.2.3 Trade Payables and Borrowings**

Financial liabilities are held at amortised cost, are initially recognised at fair value and are subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest. Trade payables are stated at cost which approximates the fair value of the consideration to be paid as payables are paid within 30 days as required by Treasury regulations, therefore the time effect is negligible.

#### **1.15.2.4 Cash and Cash Equivalents**

Cash includes cash on hand (including petty cash) and cash with banks. 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, highly liquid deposits and net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

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.

### **1.15.3 De-recognition of Financial Instruments**

#### **1.15.3.1 Financial Assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the municipality has transferred substantially all the risks and rewards of the asset, or (b) the municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the

transferred asset and the option exercise price.

#### **1.15.3.2 Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

#### **1.15.4 *Offsetting of Financial Instruments***

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### **1.15.5 *Impairment of Financial Assets***

The Municipality assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



## **1.16. REVENUE**

### **1.16.1 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 as an exchange transaction.

Fines constitute both spot fines and summonses. Revenue from spot fines and summons is recognised when payment is received and at year-end provision is made for the income from outstanding fines based on historical payment information. A provision is only raised in the event that the fines and summons remain unpaid at year end.

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, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

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.

### **1.16.2 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 monthly 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.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. This is the most prudent approach that management has elected since this is low capacity municipality and has no capacity/systems in place to determine usage of electricity by each individual customer.

Service charges relating to refuse removal are recognised on an annual basis applying the approved tariff to each household and business premises. Tariffs are determined per category of property and usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised using the effective interest method.

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

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

### **1.16.3 Grants, Transfers and Donations (Non-Exchange Revenue)**

Grants (including conditional 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. Unspent public contributions are disclosed in the financial statements as unspent conditional grants.

#### **1.17. RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. It includes full-time councillors, the Mayor and members of the Mayoral Committee. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

All related parties transactions are conducted and recorded at arm's length and disclosed in the notes to the financial statements. The municipality performs a CIPRO search on all the above mentioned personnel, including the Councillors and Section 57 managers so as to identify any related party transactions. There were no related party transactions identified.

#### **1.18. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a 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.

#### **1.19. 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, and (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.

**1.20. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and could 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.

**1.21. CONTINGENT LIABILITIES**

All known contingent liabilities are reflected in the financial statements note 37.

**1.22. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

***Impairment of trade receivables***

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

***Accounting for Investment Properties***

Management has used their judgement in recoding Investment Properties at cost.

***Implementation of GRAP***

The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a Low capacity municipality and must comply with GRAP by 30 June 2010. The municipality, however, took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2012.

