



### 4.5.3 HR POLICIES AND PLANS

Policies and plans provide guidance for fair and consistent staff treatment and a consistent approach to the managing of staff.

The table below shows the HR policies and plans that are approved and that still needs to be developed:

Approved policies	
Name of policy	Date approved/ revised
Smoking Policy	Revise Dec 2011
Recruitment Policy	Revise Nov 2011
Dress Code	Revise Dec 2011
Study –Aid Policy	Revise Nov 2011
Policies still to be developed	
Name of policy	Proposed date of approval
HIV and AIDS policy	31 Nov 2012
Smoking policy	31 Dec 2012
Bursary policy ( Study Aid Policy)	31 December 2012
Essential users scheme policy	31 Dec 2013
Scarce Skills	31 Dec 2012
Skill Retention Policy	31 Dec 2012

**Table 136: HR policies and plans**

The Human Resources department submits policies to the Local Labour Forum on a regular basis for review purposes.



#### 4.5.4 EMPLOYEE PERFORMANCE REWARDS

In accordance with regulation 32, a performance bonus, based on affordability, may be paid to an employee, after -

- (1) The annual report for the financial year under review has been tabled and adopted by the municipal council;
- (2) an evaluation of performance in accordance with the provisions of regulation 23; and
- (3) approval of such evaluation by the municipal council as a reward for outstanding performance.

The evaluation of the performance of Section 57 managers forms the basis for rewarding outstanding performance.

The table below shows the total number of Section 57 that received performance rewards for the 2010/11 financial year. The 2011/12 financial year's performance bonuses will only be awarded after the annual report was tabled:

Race	Gender	Number of beneficiaries	Total number of employees received performance rewards	% Employees received performance rewards
African	Female	1	1	1
	Male	0	0	0
Asian	Female	0	0	0
	Male	0	0	0
Coloured	Female	0	0	0
	Male	2	2	2
White	Female	0	0	0
	Male	1	1	1
Disability	Female	0	0	0
	Male	0	0	0
<b>Total</b>		<b>4</b>	<b>4</b>	<b>4</b>

**Table 137: Performance Rewards**

The Performance Management System will (was) be rolled out to all employees from post level 1 to post level 6 in 2011/2012.



## 4.6 CAPACITATING THE MUNICIPAL WORKFORCE

Section 68(1) of the MSA states that a municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way. For this purpose the human resource capacity of a municipality must comply with the Skills Development Act (SDA), 1998 (Act No. 81 of 1998), and the Skills Development Levies Act, 20 1999 (Act No. 28 of 1999).

### 4.6.1 SKILLS MATRIX

The table below indicates the number of employees that received training in the year under review:

Management level	Gender	Number of employees identified for training at start of the year	Number of Employees that received training
MM and S57	Female	1	1
	Male	2	2
Legislators, senior officials and managers	Female	4	4
	Male	10	10
Associate professionals and Technicians	Female	3	3
	Male	2	2
Professionals	Female	1	1
	Male	2	2
Clerks	Female	6	6
	Male	1	1
Service and sales workers	Female	0	0
	Male	10	10
Craft and related trade workers	Female	0	00
	Male	3	3
Plant and machine operators and assemblers	Female	0	0
	Male	7	7
Elementary occupations	Female	38	34
	Male	76	70
<b>Sub total</b>	<b>Female</b>	<b>53</b>	<b>49</b>
	<b>Male</b>	<b>113</b>	<b>107</b>
<b>Total</b>		<b>166</b>	<b>156</b>

**Table 138: Skills Matrix**

*Note: The reason why the figures differ from those in table 63 is due to the fact that some employees that have been identified for training are being identified for more than one training/workshop/skills course. In some instances the employees that are attending learnerships are also booked for a skills course.*



The reason for the total work force not being trained is due to the following:

- Insufficient funds budgeted for training
- Shortage of staff to be released for training

The following training was provided for employees trained:

- Skills programs and other short courses
- Minimum competencies
- Water learner ships
- Admin and bookkeeping learner ship
- Telematic water learner ship
- Local Government Accounting certificate
- Internal audit technician

**4.6.2 SKILLS DEVELOPMENT – TRAINING PROVIDED**

The Skills Development Act (1998) and the Municipal Systems Act, (2000), require employers to supply employees with the necessary training in order to develop its human resource capacity. Section 55(1)(f) states that as head of administration the Municipal Manager is responsible for the management, utilization and training of staff.

Occupational categories	Gender	Number of employees as at the beginning of the financial year	Training provided within the reporting period						
			Learnerships		Skills programmes & other short courses		Total		
			Actual	Target	Actual	Target	Actual	Target	% Variance
MM and S57	Female	1	0	0	1	1	1	1	0
	Male	3	0	0	2	2	2	2	0
Legislators, senior officials and managers	Female	4	0	0	4	4	4	4	0
	Male	17	0	0	17	17	17	17	0
Professionals	Female	3	3	3	1	1	1	1	0
	Male	2	2	2	2	2	2	2	0
Technicians and associate professionals	Female	0	0	0	3	3	3	3	0
	Male	12	0	0	2	2	2	2	0
Clerks	Female	13	0	0	6	6	6	6	0
	Male	39	0	0	1	1	1	1	0
Service and sales workers	Female	0	0	0	0	0	0	0	0
	Male	38	0	0	10	10	10	10	0
Craft and related trade workers	Female	0	0	0	0	0	0	0	0
	Male	6	0	0	3	3	3	3	0



Occupational categories	Gender	Number of employees as at the beginning of the financial year	Training provided within the reporting period						
			Learnerships		Skills programmes & other short courses		Total		
			Actual	Target	Actual	Target	Actual	Target	% Variance
Plant and machine operators and assemblers	Female	0	0	0	0	0	0	0	0
	Male	24	0	0	7	7	7	7	0
Elementary occupations	Female	38	0	0	34	34	34	34	0
	Male	96	0	0	70	70	70	70	0
<b>Sub total</b>	<b>Female</b>	<b>136</b>	<b>3</b>	<b>3</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>0</b>
	<b>Male</b>	<b>241</b>	<b>2</b>	<b>2</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>0</b>
<b>Total</b>		<b>377</b>	<b>5</b>	<b>5</b>	<b>164</b>	<b>164</b>	<b>164</b>	<b>164</b>	<b>0</b>

Table 139: Skills Development

### 4.6.3 SKILLS DEVELOPMENT - BUDGET ALLOCATION

The table below indicates that a total amount of R 427 088.00 were allocated to the workplace skills plan and that 0.53 % of the total amount was spent in the 2011/12 financial year:

Total personnel budget	Total Allocated	Total Spend	% Spent
R 4 752 800.00	R 427 088.00	R 1 255 979.93	0.53

Table 140: Table 63: Budget allocated and spent for skills development

The reason for the above is because of the non-availability of providers and the high cost of identified training.

## 4.7 MANAGING THE MUNICIPAL WORKFORCE EXPENDITURE

Section 66 of the MSA states that the accounting officer of a municipality must report to the Council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits. This is in line with the requirements of the Public Service Regulations, (2002), as well as National Treasury Budget and Reporting Regulations SA22 and SA23.

### 4.7.1 PERSONNEL EXPENDITURE

The percentage personnel expenditure is essential in the budgeting process as it reflects on current and future efficiency. The table below indicates the percentage of the municipal budget that was spent on salaries and allowance for the past three financial years and that the municipality is well within the national norm of between 35 to 40%:



Financial year	Total Expenditure salary and allowances	Total Operating Expenditure	Percentage
	R'000	R'000	(%)
2010/11	54 714	188 225	29
2011/12	49 648	207 194	24

**Table 141: Personnel Expenditure**

Below is a summary of Councillor and staff benefits for the year under review:

Financial year	2010/11	2011/12		
	Actual	Original Budget	Adjusted Budget	Actual
Description	R'000			
<b>Councillors (Political Office Bearers plus Other)</b>				
Salary	2 713	2 475	2 475	2 420
Pension Contributions	0	0	0	0
Medical Aid Contributions	0	0	0	0
Motor vehicle allowance	273	825	825	822
Cell phone allowance	202	183	183	179
Housing allowance	0	0	0	0
Other benefits or allowances	35	38	0	0
In-kind benefits	0	0	0	0
<b>Sub Total - Councillors</b>	<b>3 223</b>	<b>3 521</b>	<b>3 483</b>	<b>3 421</b>
<b>% increase/ (decrease)</b>	<b>5.6</b>	<b>7.5</b>	<b>1</b>	<b>6</b>
<b>Senior Managers of the Municipality</b>				
Salaries	1 965	2 701	2 701	1 976
Pension Contributions	270	449	449	368
Medical Aid Contributions	53	40	40	0
Motor vehicle allowance	521	633	633	726
Cell phone allowance	0	0	0	0
Housing allowance	0	0	0	0
Performance Bonus	256	298	298	256
Other benefits or allowances	87	307	307	1
In-kind benefits	0	0	0	0
<b>Sub Total - Senior Managers of Municipality</b>	<b>3 152</b>	<b>4 428</b>	<b>4 428</b>	<b>3 327</b>
<b>% increase/ (decrease)</b>	<b>-0.1</b>	<b>40.5</b>	<b>0</b>	<b>5</b>
<b>Other Municipal Staff</b>				
Basic Salaries and Wages	27 170	32 061	31 741	30 324
Pension Contributions	7 377	5 315	5 195	5 173



Financial year	2010/11	2011/12		
Description	Actual	Original Budget	Adjusted Budget	Actual
	R'000			
Medical Aid Contributions	1 710	2 555	2 555	1 745
Motor vehicle allowance	963	977	797	809
Cell phone allowance	706	435	435	452
Housing allowance	350	0	0	109
Overtime	446	797	797	1 401
Other benefits or allowances	9 616	4 481	4 623	2 887
<b>Sub Total - Other Municipal Staff</b>	<b>48340</b>	<b>46 621</b>	<b>46 143</b>	<b>42 900</b>
<b>% increase/ (decrease)</b>	<b>36.9</b>	<b>(10.8)</b>	<b>1</b>	<b>(10)</b>
<b>Total Municipality</b>	<b>54 715</b>	<b>51 049</b>	<b>50 571</b>	<b>49 648</b>
<b>% increase/ (decrease)</b>	<b>25.6</b>	<b>7</b>	<b>1</b>	<b>(16)</b>

Table 142: Personnel Expenditure

\*Note: figures in the previous years were amended and will therefore not match the figures in the previous year annual report.



# Chapter 5

# Financial Performance







## CHAPTER 5: FINANCIAL PERFORMANCE

### 5.1 NATIONAL KEY PERFORMANCE INDICATORS - MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT

The following table indicates the municipality’s performance in terms of the National Key Performance Indicators required in terms of the Local Government: Municipal Planning and the Performance Management Regulations of 2001 and section 43 of the MSA. These key performance indicators are linked to the National Key Performance Area namely Municipal Financial Viability and Management.

KPA& INDICATOR	MUNICIPAL ACHIEVEMENT	MUNICIPAL ACHIEVEMENT
	2010/11	2011/12
Debt coverage ((Total operating revenue-operating grants received)/debt service payments due within the year)	37.51%	28.54%
Service debtors to revenue – (Total outstanding service debtors/ revenue received for services)	0.51	0.12
Cost coverage ((Available cash+ investments)/ Monthly fixed operating expenditure	87%	53%

**Table 143: National Key Performance Indicators – Municipal Financial Viability and Management**

### 5.2 FINANCIAL VIABILITY HIGHLIGHTS

Highlights	Description
Operating without Bank Overdraft facility	Emthanjeni municipality almost never made use of the bank overdraft facility during the financial year. The municipality ended with a favourable bank balance at year end.
Adhering to MFMA Circular 51, by payments service providers	All service providers who submitted valid tax invoices were paid timeously within the 30 days period.
Utilisation of Operating and Capital Grants during the financial year	All operating grants were spent and 90% of the capital grants were spend during the year. This testifies our commitment to spend all grants received.
Honouring of Statutory commitments throughout the period under review	Statutory payments such as Eskom, SARS-PAYE, SARS VAT, Net salaries and Third party payments were paid on time throughout the financial year and no amounts were outstanding at year end.

**Table 144: Financial Viability Highlights**



### 5.3 FINANCIAL VIABILITY CHALLENGES

Challenge	Action to address
The Increase of outstanding balance of debtors	More vigorous efforts will be employed by the Credit Control unit to sharpen the credit control efforts within the municipality. VeriCred Credit Bureau must also be very assertive with the collection efforts
The monthly payment percentage of billing versus receipts	More vigorous efforts will be employed by the Credit Control unit to sharpen the credit control efforts within the municipality. Proper communication mechanisms will be developing to correspond with consumers in order to improve the payment culture within the municipality.
Spending of 100 % capital grants	Concerted efforts will be enforce to advertise tenders in advance so that contractors can start with much earlier and completed projects much faster. MIG Spending patterns will be reported to Council on a monthly basis

Table 145: Financial Viability Challenges

### 5.4 FINANCIAL SUSTAINABILITY

#### 5.4.1 OPERATING RESULTS

The table below shows a summary of performance against budgets

Financial Year	Revenue				Operating expenditure			
	Budget	Actual	Diff.	%	Budget	Actual	Diff.	%
	R'000				R'000			
2010/11	144 769	152 164	(7395)	(5.11)	159 339	188225	28 886	18.13
2011/12	148 902	150324	(1 422)	0.95	154 807	207 194	(52 387)	(33.84)

Table 146: Performance against budgets

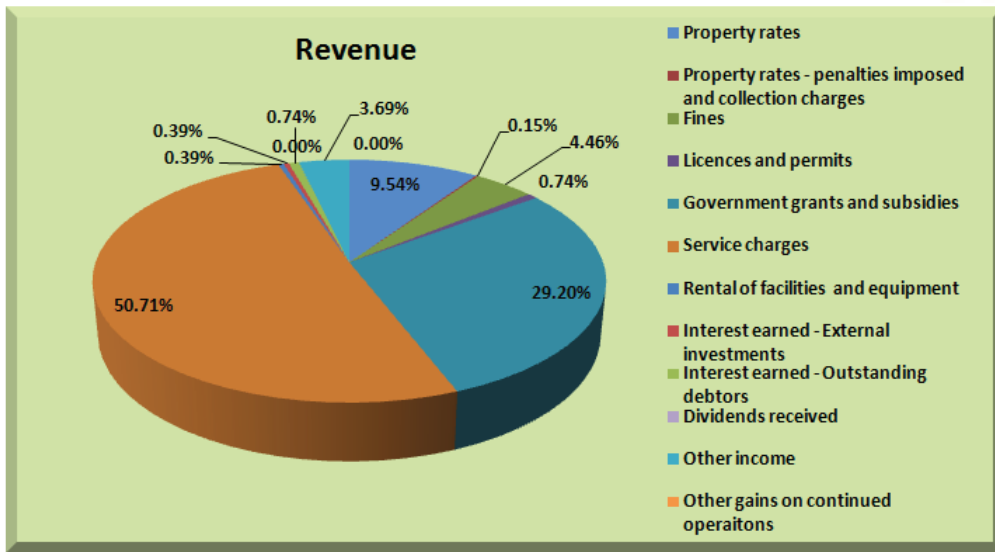
#### Operating Revenue

Actual Operating revenue exceeded the budgeted revenue during this financial year. During the year most of the revenue streams were in accordance with the projected revenue streams. The payment culture within the municipality is showing some signs of improvement but more extensive efforts will be employed during the coming financial year.

#### Operating Expenditure

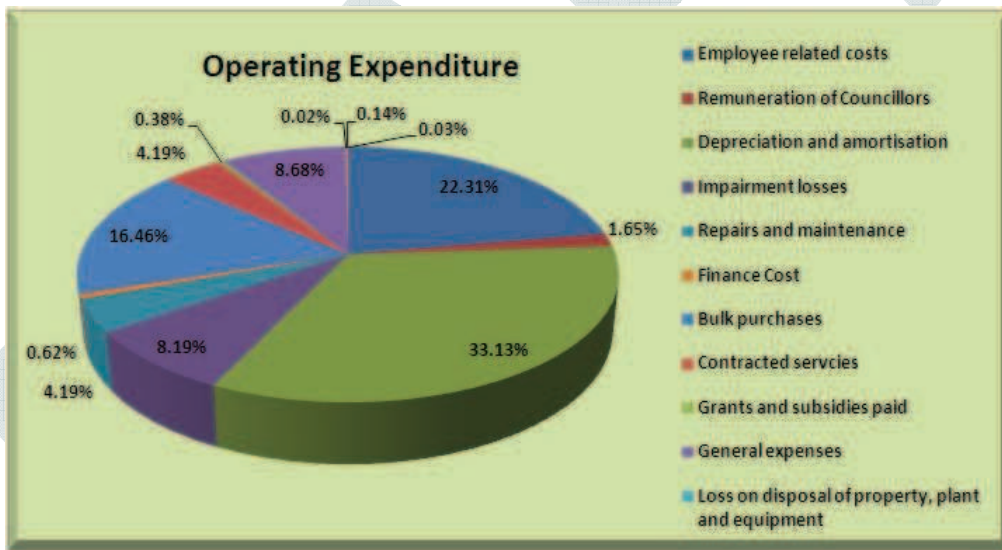
Actual expenditure that was incurred was according to the budgeted expenditure. The co-operation by all internal stakeholders contributes to the much positive control mechanism that was executed during the financial year. The deficit mainly relates to the non-cash expenditure item of the Depreciation due to the valuation of fixed assets.

The following graph indicates the various types of revenue items in the municipal budget for 2010/11



Graph 16: Revenue

The following graph indicates the various types of expenditure items in the municipal budget for 2010/11



Graph 17: Operating expenditure



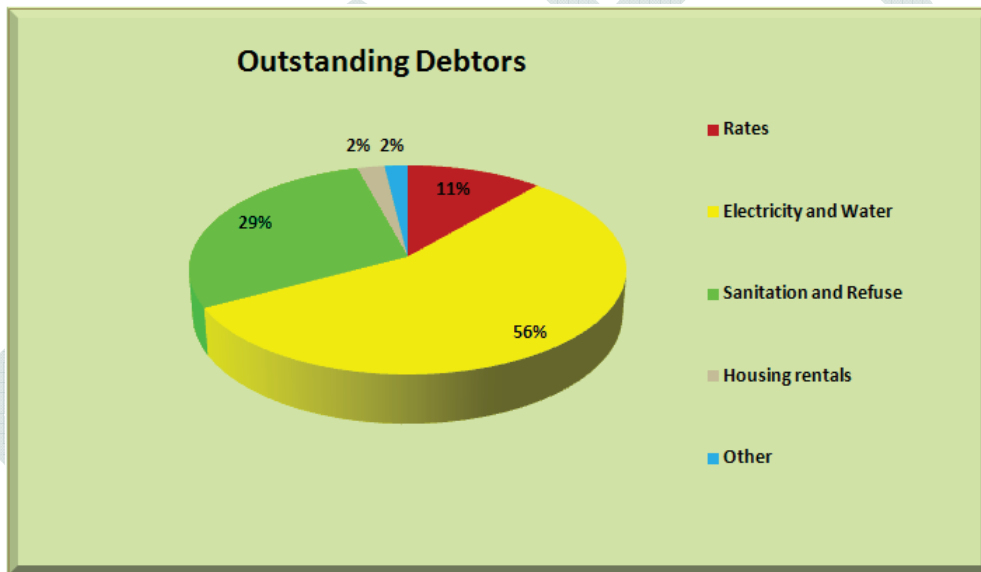
**5.4.2 OUTSTANDING DEBTORS**

**A) GROSS OUTSTANDING DEBTORS PER SERVICE**

Financial year	Rates	Trading services	Economic services	Housing rentals	Other	Total
		(Electricity and Water)	(Sanitation and Refuse)			
	R'000	R'000	R'000	R'000	R'000	R'000
2010/11	6 142	33 174	16 778	1 221	1 719	59 034
2011/12	8 689	42 783	21 865	1 769	1 470	76 576
Difference	2 547	9 609	5 087	548	-249	17 542
<b>% growth year on year</b>	11	56	29	2	2	100

*Table 147: Gross outstanding debtors per service*

The following graph indicates the total outstanding debt per type of service for 2011/12



*Graph 18: Debt per type of service*



**B) TOTAL DEBTORS AGE ANALYSIS**

Financial year	Less than 30 days (R'000)	Between 30-60 days (R'000)	Between 60-90 days (R'000)	More than 90 days (R'000)	Total (R'000)
2010/11	7 187	2 970	2385	46 492	59 034
2011/12	7 187	2 468	2 274	64 647	76 576
Difference	0	(502)	(111)	18 155	17 542
% growth year on year	0	(3)	(1)	103	100

**Table 148: Service debtor age analysis**

*Note: Figures exclude provision for bad debt*

**Outstanding debtor's amounts**

Arrear balances of consumers continue to influence the cash flow of the municipality, negatively. Although concerted efforts were instituted to address the increase of the outstanding balances of debtors, the outstanding debts are increasing year on year. This put enormous pressure on the payment percentage and collection rate. Council appointed VeriCred Credit Bureau to assist the municipality with the recovery of these outstanding debts.

**5.4.3 VIABILITY INDICATORS**

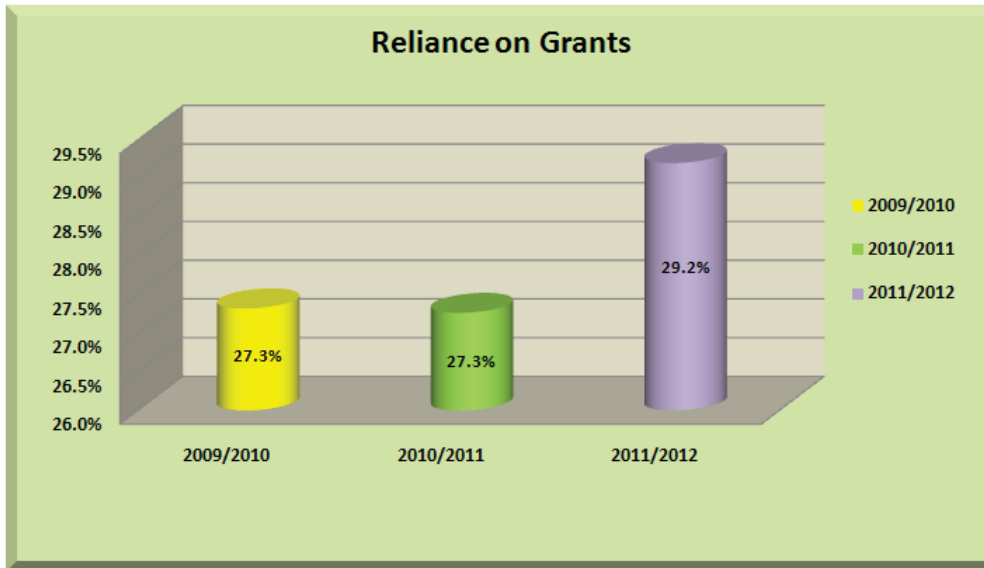
Financial year	Total grants and subsidies received (R'000)	Total Operating Revenue (R'000)	Percentage (%)
	R'000		
2009/10	34 820	127 478	27.32
2010/11	41 478	152164	27.00
2011/12	43 887	150 324	29.00

**Table 149: Reliance on grants**

26% of the municipality revenue consists from grants received. These Grants are utilised to fund the Free Basic Services that is provided to all successful Indigent Households of the municipality. Emthanjeni is relying on these operating and capital grants to finance various capital projects and other activities which benefitted the communities it serves. A huge percentage of our capital budget is funded from the Municipal Infrastructure Grant (MIG).



The following graph indicates the municipality's reliance on grants as percentage for the last three financial years



Graph 19: Reliance on grants as %

**B) LIQUIDITY RATIO**

Financial year	Net current assets	Net current liabilities	Ratio
	R'000		
2009/10	73 681	18 540	3.97:1
2010/11	103 228	24 151	4.27:1
2011/12	107 470	37 395	2.87:1

Table 150: Liquidity ratio

Although the liquidity ratios decline during the 2012/2013 financial year, it remains positive. This is a testimony to our efforts to honour our commitments fully during the period under review. This contributes to a very positive outlook for the municipality with its bankers and possible financiers of capital programmes.

**5.4.4 AUDITED OUTCOMES**

Year	2006/2007	2007/2008	2008/2009	2009/2010	2010/11	2011/12
Status	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Qualified	Qualified

Table 151: Audit outcomes



The following table provides the details on the audit outcomes for the past two financial years with the correctives steps implemented:

2010/11	
Issue raised	Corrective step implemented
Property, Plant and Equipment	Action Plan will be developed to address the issues identified
Revenue	
Creditors from Exchange transactions	
Intangible Assets	
Irregular Expenditure	
Emphasis of matter:	
Significant uncertainties: Non License of Landfill Site	Action Plan will be developed to address the issues identified
Restatement of corresponding figures	
Material losses and impairment	
Other Matters	
Non-compliance with applicable legislation	
Local Government: Municipal Finance Management Act, No. 56 of 2003 (MFMA)	
The Audit Committee did not function as per s166, MFMA	Training and Capacitating of Audit Committee will be undertaken before the end of the 2011/2012 financial year
Local Government: Municipal Systems Act, Act No. 32 of 2000 (MSA)	
Predetermined Objectives	Action Plan will be developed to address the issues identified
Procurement and contract management	

Table 152: 2010/11 Detail on audit outcomes

2011/12	
Issue raised	Corrective step implemented
Aggregation of immaterial uncorrected misstatements Accumulated Surplus understated Revenue overstated Expenditure overstated Creditors overstated Receivables understated	The matter will be investigated and corrections will be made on the FMS system and AFS
Emphasis of matter:	
Restatement of corresponding figures: As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the municipality at, and for the year ended, 30 June 2011.	During the preparations of the AFS of 2013, it would be rectified.
Material losses and impairments: As disclosed in note 52.9 to the financial statements, the municipality suffered a significant electricity loss of R4 770 467 during the year under review.	DIHS will investigate the matter and will developed an programme of action to reduced the system losses
As disclosed in note 51.3 to the financial statements, the municipality incurred irregular expenditure of R16 257 924.	SCM Regulations will be followed to ensure that Irregular Expenditure is minimise



2011/12	
Issue raised	Corrective step implemented
<b>Additional Matters</b>	
Of the total number of planned targets, only 60 were achieved during the year under review. This represents 20% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process. Furthermore, 39 of the total number of targets set for the year are in respect of objectives that are considered to be qualitatively material. Of these targets, 18% were not achieved during the year under review.	The PMS targets will be investigated and amendments to the Top Layer PMS will be corrected
<b>Planned targets not met</b> The audit committee did not adequately advise the accounting officer on matters relating compliance with the MFMA, Dora and other applicable legislation, as required by section 166(2)(a)(vii)	An effective communication between the Council and Audit Committee will be development and executed
The audit committee did not adequately review the annual financial statements to provide the council with an authoritative and credible view of the financial position, its efficiency and effectiveness and its overall level of compliance with the MFMA, Dora and other applicable legislation, as required by section 166(2)(b) of the MFMA	The report by the Audit committee on issues raised by the Auditor-General should become a standing item on the first council meeting after the final Audit report has been issued.
The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA	An effective communication between the Council and Audit Committee will be development and executed
A performance audit committee was not in place and the audit committee established in terms of MFMA section 166(1) was not used for the this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a)	An effective communication between the Council and Audit Committee will be development and executed
The internal audit unit did not function as required by section 165 (2) of the MFMA, in that it did not advise the accounting officer on matters relating to accounting procedures and practices and risk management	An effective communication between the Council and Audit Committee will be development and executed
The internal audit unit did not report to the audit committee on matters relating compliance with the MFMA, Dora and other applicable legislation, as required by section 165(2)(b) of the MFMA	An effective communication between the Council and Audit Committee will be development and executed
The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14(1)(a)	Training on The auditing of Performance Information has been identified as a need and training will be arranged for the Internal audit unit.
The internal audit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(ii) and (iii)	An effective communication between the Council and Audit Committee will be development and executed
The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manger and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c)	An effective communication between the Council and Audit Committee will be development and executed





2011/12	
Issue raised	Corrective step implemented
Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).	SCM Regulations will be adhere to as far as possible
Bids were not always evaluated by bid evaluation committees which were composed of at least one SCM practitioner of the municipality as required by SCM regulation 28(2).	SCM Regulations will be adhere to as far as possible
Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.	All projects will be registered with CIDB immediately
Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of Municipal Systems Act.	All appointments will be made in accordance with the approved organigram
The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) Municipal Systems Act.	PMS agreements will be signed within the required timeframes
The performance agreements of a senior manager who did not have the minimum competencies, did not include the attainment of minimum competencies as a performance target, as required by Municipal Regulations on Minimum Competency Levels reg 16(2).	PMS agreements will be amended to include to Minimum Competency Levels,
Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act.	Section 65(2) of the MFMA will be adhere too
The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.	SCM Regulations will be adhere to as far as possible
The municipality did not submit a draft performance framework submitted by 30 March 2011, the final approved performance framework by 07 June 2011, the Human Settlement and built environment performance framework, proof that the performance framework and the performance targets have been ratified by a municipal council resolution prior to receipt of its first instalment of the grant allocation, as required by the Division of Revenue Grant Framework, Gazette No.34280.	The municipality will strive to comply with the DORGF by submitting the performance framework before the due date.
Unspent conditional grant funds not approved by the National Treasury for retention were not surrendered to National Revenue Fund, as required by section 20(1) of the Division of Revenue Act.	Spending patterns will be improve to avoid unspent conditional grants being repaid to National Treasury
The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.	The municipality will strive to comply with the DORGF by submitting the performance framework before the due date.
Projects were not implemented in line with the details contained in the Integrated Development Plan, as required by the Division of Revenue Grant Framework, Gazette No.34280.	The municipality will strive to comply with the DORGF by submitting the performance framework before the due date.
Interest was not charged on all arrears accounts as required by section 64(2)(g) of the Municipal Finance Management Act.	The Credit Control policy will be re-assessed and be amended where possible.
An adequate management, accounting and information system which accounts for assets was not in place, as required by	A system will be developed that will ensure that all assets are accounted for and that officials are held responsible for the



2011/12	
Issue raised	Corrective step implemented
section 63(2)(a) of the Municipal Finance Management Act.	assets under their control.
We considered internal control relevant to our audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.	See comments below
Leadership	
The accounting officer did not ensure that proper policy and procedures and internal control procedures are developed, implemented and monitored to report on the property plant and equipment of the municipality.	Policies will be developed and implemented
The accounting officer does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities in terms of maintaining the fixed asset register, preparing the annual financial statements and compliance with the supply chain management regulations.	Will ensure that this be a standing item on management meeting's agenda.
The accounting officer does not implement effective HR management to communicate leave policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities of leave management	An effective communication strategy will be developed to communicate all policies and procedures i.r.t. HR Management to the general staff on a regular basis
The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls for leave management	Will ensure that this be a standing item on management meeting's agenda.
Does not establish an IT governance framework that supports and enables the business, delivers value and improves performance.	Will ensure that this be a standing item on management meeting's agenda.
Financial and Performance Management	
The financial statements were not sufficiently reviewed for completeness and accuracy prior to submission for auditing.	Staff will be capacitated to ensure that the AFS is being reviewed before the submission for auditing.
The municipality does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting relating to property plant and equipment of the municipality and the service delivery objective.	Internal Controls will be re-visited, sharpen and communicated to all staff in order to address the weaknesses identified in the systems
The municipality lacks skills regarding certain aspects of the financial reporting framework and performance management requirements. This resulted in the municipality engaging a consultant to prepare the financial statements. The underlying accounting records of the municipality did not always facilitate the preparation of the financial statements to comply with the accounting framework.	Staff will be capacitated during the current financial year with relevant training programmes offered by IMFO, National Treasury, COGSTHA, etc.
Management does not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.	Internal Controls will be re-visited, sharpen and communicated to all staff in order to address the weaknesses identified in the



2011/12	
Issue raised	Corrective step implemented
	systems
The Municipality has not implemented controls in the SCM unit to review and monitor compliance with applicable laws and regulations.	Internal Controls will be re-visited, sharpen and communicated to all staff in order to address the weaknesses identified in the systems
Governance	
Does not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.	More interaction between the Internal Audit Unit and Management will be establish during the financial year
The financial statements were subject to material corrections resulting from the audit, which are attributable to the lack of risk assessment performed, weaknesses in the design and implementation of internal control in respect of financial management, and financial reporting and weaknesses in the information systems.	The areas of risk will be addressed during the financial year

**Table 153: 2011/12 Detail on audit outcomes**

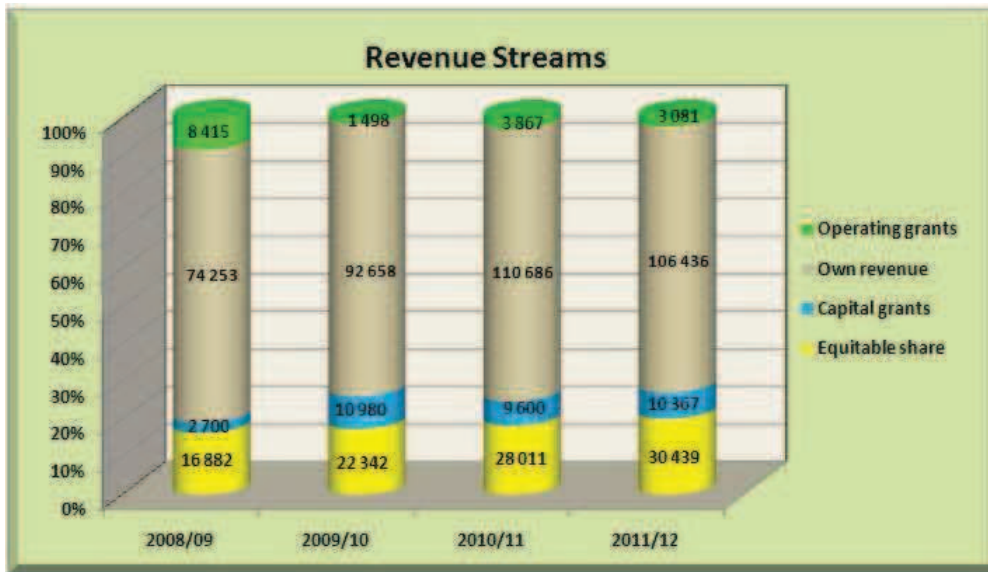
The audit outcomes of 2011/2012 have shown an enormous improvement in the operations of the municipality. Aggregate amounts of the 2010/2011 were the biggest area of concern. The 2012 financial year testify on our commitment in achieving clean audit status by 2014.

#### 5.4.5 EQUITABLE SHARE VS. TOTAL REVENUE

Description of revenue	Amount received 2008/09	Amount received 2009/10	Amount received 2010/11	Amount received 2011/12
	R'000			
Equitable share	16 882	22 342	28 011	30 439
Capital grants	2 700	10 980	9 600	10 367
Operating grants	8 415	1 498	3 867	3 081
Own revenue	74 253	92 658	110 686	106 436
<b>Total revenue</b>	<b>102 250</b>	<b>127 478</b>	<b>152 164</b>	<b>150 323</b>

**Table 154: Equitable share vs. total revenue**

The following graph indicates the various revenue streams of the municipality for the past three financial years



Graph 20: Revenue streams

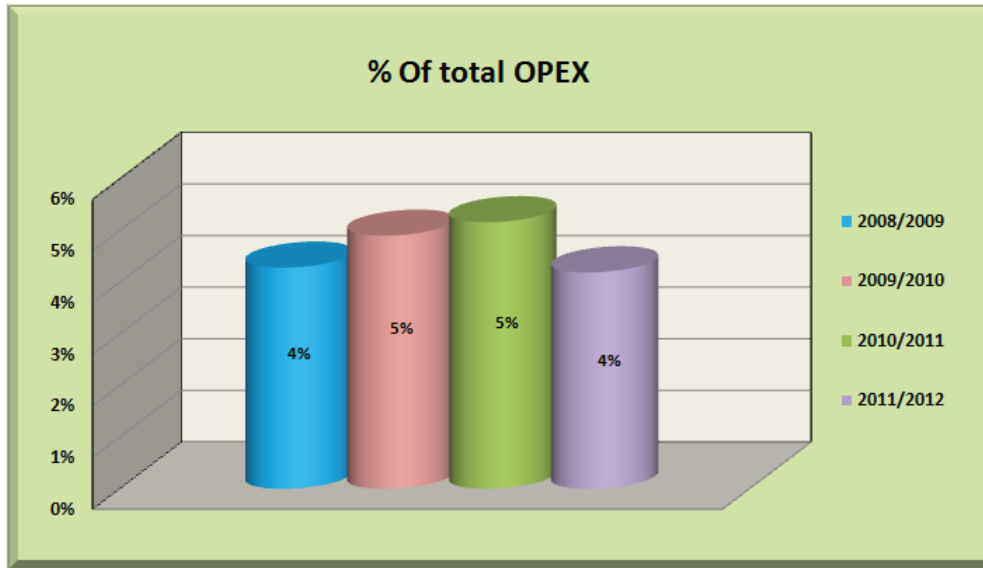
#### 5.4.6 REPAIRS AND MAINTENANCE

Description	2008/2009	2009/2010	2010/11	2011/12
	R'000			
Total Operating Expenditure	152 967	162 598	188 225	207 194
Repairs and Maintenance	6 546	7 967	9 714	8 679
<b>% of total OPEX</b>	<b>4.28</b>	<b>4.90</b>	<b>5.00</b>	<b>4.00</b>

Table 155: Repairs & maintenance as % of total OPEX

This expenditure reflects the normal repairs and maintenance of assets that were repair or maintained during the year. A big portion of the budgeted amounts have been re-allocated to replace old and redundant assets. Council remains committed to increase spending in the maintenance of existing, new and old assets. The percentage of the actual amount spent on Repair and Maintenance in relation to the total expenditure which includes a huge amount of depreciation contributes to the low percentage as it reflects in Table 117. The replacement of assets which were capitalised is excluded in the figures above.

The following graph indicates the percentage of the budget that was spent on repairs & maintenance in relation to the operational budget



Graph 21: Repairs and maintenance as percentage of OPEX

#### 5.4.7 CAPITAL FUNDED BY SOURCE

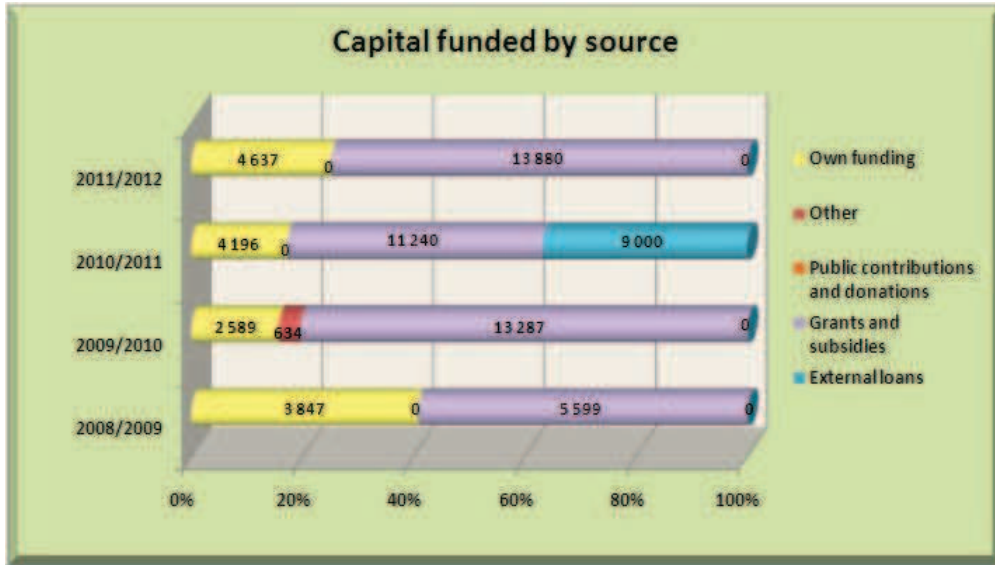
Description Source	2008/09	2009/10	2010/11	2011/12
	R'000			
External loans	0	0	9 000	0
Grants and subsidies	5 599	13 287	11 240	13 880
Public contributions and donations	0	0	0	0
Own funding	3 847	2 589	4 196	4 637
Other	0	634	0	0
<b>Total capital expenditure</b>	<b>9 446</b>	<b>16 510</b>	<b>24 436</b>	<b>18 517</b>

Table 156: Capital funded by source

The spending of the total capital budget is unquestionable a very high priority of the Council of Emthanjeni municipality. Although almost 90% of the total capital programme which is funded from grants realised during the year. The project will finalise over the next few months. Council and management remain steadfast in their commitment to spend all committed funds in the next financial year.



The following graph indicates capital expenditure funded by the various sources



Graph 22: Capital funded by source

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## LIST OF ABBREVIATIONS

<b>AG</b>	Auditor-General
<b>CAPEX</b>	Capital Expenditure
<b>CBP</b>	Community Based Planning
<b>CFO</b>	Chief Financial Officer
<b>DPLG</b>	Department of Provincial and Local Government
<b>DWAF</b>	Department of Water Affairs and Forestry
<b>EE</b>	Employment Equity
<b>GAMAP</b>	Generally Accepted Municipal Accounting Practice
<b>GRAP</b>	Generally Recognised Accounting Practice
<b>HR</b>	Human Resources
<b>IDP</b>	Integrated Development Plan
<b>IFRS</b>	International Financial Reporting Standards
<b>IMFO</b>	Institute for Municipal finance officers
<b>KPA</b>	Key Performance Area
<b>KPI</b>	Key Performance Indicator
<b>LED</b>	Local Economic Development
<b>MAYCOM</b>	Executive Mayoral Committee
<b>MFMA</b>	Municipal Finance Management Act (Act No. 56 of 2003)
<b>MIG</b>	Municipal Infrastructure Grant
<b>MM</b>	Municipal Manager
<b>MMC</b>	Member of Mayoral Committee
<b>MSA</b>	Municipal Systems Act No. 32 of 2000
<b>MTECH</b>	Medium Term Expenditure Committee
<b>NGO</b>	Non governmental organisation
<b>NT</b>	National Treasury
<b>OPEX</b>	Operating expenditure



<b>PMS</b>	Performance Management System
<b>PT</b>	Provincial Treasury
<b>SALGA</b>	South African Local Government Organisation
<b>SAMDI</b>	South African Management Development Institute
<b>SCM</b>	Supply Chain Management
<b>SDBIP</b>	Service Delivery and Budget Implementation Plan
<b>SDF</b>	Spatial Development Framework

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**ANNEXURE A: FINANCIAL STATEMENTS**

**EMTHANJENI LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**General information**

**Members of the Council:**

ST Sthonga	Mayor
MM Freddie	Speaker
WJ du Plessis	Member
AF Jaftha	Member
J Jood	Member
VG Jonas	Member
MC Kivedo	Member
M Malherbe	Member
GL Nkumbi	Member
GL Nyl	Member
HJ Rust	Member
B Swanepoel	Member
NS Thomas	Member
WA Witbooi	Member

**Municipal Manager:** I Visser

**Chief Financial Officer:** MF Manuel

**Grading of Local Authority:** Grade 2

**Auditors:** Auditor-General

**Bankers:** ABSA Bank Limited

**Registered Office:** 45 Voortrekker Street  
De Aar  
7000

**Physical address:** 45 Voortrekker Street  
De Aar  
7000

**Postal address:** PO Box 42  
De Aar  
7000

**Telephone number:** (053) 632 9100

**Fax number:** (053) 631 0105

**EMTHANJENI LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Approval of annual financial statements**

I am responsible for the preparation of these annual financial statements, which are set out on pages X to XX, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 35 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**Municipal Manager: I Visser**

**31 August 2012**

**EMTHANJENI LOCAL MUNICIPALITY**  
**REPORT OF THE CHIEF FINANCIAL OFFICER**

**1. INTRODUCTION**

It gives me great pleasure to present the financial position of Emthanjeni Local Municipality at 30 June 2012 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2011/12 financial period are set out in Directive 5 issued by the ASB on 27 March 2012.

The Statement of Financial Position at 30 June 2012 indicates a decrease in Net Assets and Non-current Liabilities and an increase Current Liabilities.

The decrease in Net Assets is ascribed primarily to the decrease in Accumulated Surplus as a result of the deficit generated on the operating account. The decrease in Non-current Liabilities is primarily as a result of the decrease in Retirement Benefit Liabilities. The increase in Current Liabilities is primarily as a result of the increase in Creditors and Unspent Conditional Grants.

**2. KEY FINANCIAL INDICATORS**

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

**Financial Statement Ratios:**

INDICATOR	2012	2011
<b>Surplus / (Deficit) at the end of the Year</b>	<b>(56 870 146)</b>	<b>(36 060 359)</b>
<b>Expenditure Categories as a percentage of Total Expenses:</b>		
Employee Related Costs	22.31%	27.36%
Remuneration of Councillors	1.65%	1.71%
Collection Costs	0.00%	0.00%
Depreciation and Amortisation	33.13%	35.51%
Impairment Losses	8.19%	0.94%
Repairs and Maintenance	4.19%	5.16%
Interest Paid	0.62%	0.40%
Bulk Purchases	16.46%	14.01%
Contracted Services	4.19%	4.77%
Grants and Subsidies Paid	0.38%	0.30%
General Expenses	8.68%	9.31%
Loss on Disposal of Property, Plant and Equipment	0.02%	0.00%
Loss on Sale of land	0.14%	0.20%
Inventory Written-off	0.03%	0.32%
<b>Current Ratio:</b>		
Creditors Days	30 days	30 days
Debtors Days	183 days	45 days

The increase in the number of Debtor Days is due to the increase in the Provision for Impairment that amounted to R16 935 340. All creditors are paid within 30 days and therefore the current ratio is listed as such.

The following ratios are seen by the Municipality as key ratios in monthly reporting:

RATIOS	2012	2011
Cost Coverage	87%	53%
Debt Coverage	37.51	28.54
Service Debtors to Revenue	0.51	0.12

**EMTHANJENI LOCAL MUNICIPALITY**  
**REPORT OF THE CHIEF FINANCIAL OFFICER**

**3. OPERATING RESULTS**

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Note 64.

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

The overall operating results for the year ended 30 June 2012 are as follows:

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
<b>Income:</b>					
Opening surplus / (deficit)	919 832 243	943 712 142			
Operating income for the year	150 323 523	152 164 177	(1.21)%	159 584 000	(5.80)%
	<b>1 070 155 766</b>	<b>1 095 876 319</b>		<b>159 584 000</b>	
<b>Expenditure:</b>					
Operating expenditure for the year	(207 193 669)	(188 224 536)	10.08%	(144 200 000)	43.68%
Sundry transfers	12 190 337	12 180 460		-	
<b>Closing surplus / (deficit)</b>	<b>875 152 434</b>	<b>919 832 243</b>		<b>15 384 000</b>	

**3.1 Rates and General Services:**

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	49 379 467	60 432 053	(18.29)%	60 528 000	(18.42)%
Expenditure	(96 080 671)	(134 419 928)	(28.52)%	(71 366 000)	34.63%
<b>Surplus / (Deficit)</b>	<b>(29 772 828)</b>	<b>(78 825 049)</b>		<b>(10 838 000)</b>	
Surplus / (Deficit) as % of total income	52.35%	218.59%		(6.79)%	

**3.2 Housing Services:**

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	244 006	1 109 127	(78.00)%	18 000	1255.59%
Expenditure	(4 016 068)	(4 039 478)	(0.58)%	(2 987 000)	34.45%
<b>Surplus / (Deficit)</b>	<b>(3 772 062)</b>	<b>(2 930 351)</b>		<b>(2 969 000)</b>	
Surplus / (Deficit) as % of total income	6.63%	5.15%		(1.86)%	

**EMTHANJENI LOCAL MUNICIPALITY**  
**REPORT OF THE CHIEF FINANCIAL OFFICER**

**3.3 Waste Management Services:**

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	24 722 347	23 795 472	3.90%	28 772 000	(14.07)%
Expenditure	(20 168 901)	(11 379 162)	77.24%	(13 918 000)	44.91%
<b>Surplus / (Deficit)</b>	<b>4 553 446</b>	<b>12 416 310</b>		<b>14 854 000</b>	
Surplus / (Deficit) as % of total income	(8.01)%	(34.43)%		9.31%	

**3.4 Electricity Services:**

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R33 173 974 (2011: R25 508 634). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	56 968 969	50 530 600	12.74%	52 647 000	8.21%
Expenditure	(54 151 724)	(32 760 795)	65.29%	(44 498 000)	21.69%
<b>Surplus / (Deficit)</b>	<b>2 817 245</b>	<b>17 769 806</b>		<b>8 149 000</b>	
Surplus / (Deficit) as % of total income	(4.95)%	(49.28)%		5.11%	

**3.5 Water Services:**

Water is bought in bulk from a number of suppliers and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R931 628 (2011: R870 953). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	19 008 734	16 296 925	16.64%	17 619 000	7.89%
Expenditure	(32 776 305)	(5 625 173)	482.67%	(11 431 000)	186.73%
<b>Surplus / (Deficit)</b>	<b>(13 767 571)</b>	<b>10 671 752</b>		<b>6 188 000</b>	
Surplus / (Deficit) as % of total income	24.21%	(29.59)%		3.88%	

**4. ACCUMULATED SURPLUS**

The balance of the Accumulated Surplus as at 30 June 2012 amounted to R875 152 434 (30 June 2011: R919 832 243) and is made up as follows:

Capital Replacement Reserve	2 252 793
Accumulated Surplus	872 899 641
	<u>875 152 434</u>

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, are made annually to the reserve.

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

Refer to Note 25 and the Statement of Change in Net Assets for more detail.

**EMTHANJENI LOCAL MUNICIPALITY**  
**REPORT OF THE CHIEF FINANCIAL OFFICER**

**5. LONG-TERM LIABILITIES**

The outstanding amount of Long-term Liabilities as at 30 June 2012 was R8 510 509 (30 June 2011: R10 792 632).

Refer to Note 20 and Appendix "A" for more detail.

**6. RETIREMENT BENEFIT LIABILITIES**

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2012 was R24 626 029 (30 June 2011: R25 507 607).

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

Refer to Note 21 for more detail.

**7. NON-CURRENT PROVISIONS**

Non-current Provisions amounted R2 467 105 as at 30 June 2012 (30 June 2011: R2 412 280) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites	2 467 105
	<b>2 467 105</b>

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

Refer to Note 22 for more detail.

**8. CURRENT LIABILITIES**

Current Liabilities amounted R37 395 383 as at 30 June 2012 (30 June 2011: R24 151 105) and is made up as follows:

Consumer Deposits	Note 14	1 781 959
Current Portion of Retirement Benefit Liabilities	Note 15	1 282 656
Creditors	Note 16 & 17	12 776 290
Unspent Conditional Grants and Receipts	Note 18	11 954 426
VAT	Note 19	2 189 259
Bank Overdraft	Note 5	5 154 118
Current Portion of Long-term Liabilities	Note 20	2 256 675
		<b>37 395 383</b>

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

Refer to the indicated Notes for more detail.

**9. PROPERTY, PLANT AND EQUIPMENT**

The net value of Property, Plant and Equipment was R1 025 429 449 as at 30 June 2012 (30 June 2011: R1 075 119 945).

Refer to Note 8 and Appendices "B, C and E (2)" for more detail.

**10. INTANGIBLE ASSETS**

The net value of Intangible Assets were R1 062 346 as at 30 June 2012 (30 June 2011: R1 611 012).

These are assets without physical form and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 9 and Appendix "B" for more detail.

**11. INVESTMENT PROPERTIES**

The net value of Investment Properties were R3 106 800 as at 30 June 2012 (30 June 2011: R3 440 900).

Refer to Note 10 and Appendix "B" for more detail.

**12. NON-CURRENT INVESTMENTS**

The municipality held Investments to the value of R10 940 as at 30 June 2012 (30 June 2011: R7 678).

Refer to Note 12 for more detail.

**EMTHANJENI LOCAL MUNICIPALITY**  
**REPORT OF THE CHIEF FINANCIAL OFFICER**

**13. LONG-TERM RECEIVABLES**

Long-term Receivables of R1 164 at 30 June 2012 (30 June 2011: R30 126) is made up as follows:

Other Loans		1 164
		1 164
Less: Short-term portion included in Current Assets		-
		1 164

The decrease in the amount for Long-term Receivables is due to a loan that was repaid in full during the year.

Refer to Note 13 for more detail.

**14. CURRENT ASSETS**

Current Assets amounted R107 470 339 as at 30 June 2012 (30 June 2011: R103 214 313) and is made up as follows:

Inventory	Note 2	46 078 743
Receivables from Exchange Transactions	Note 3	39 144 555
Receivables from Non-exchange Transactions	Note 4	7 788 763
Bank, Cash and Cash Equivalents	Note 5	14 379 346
Operating Lease Assets	Note 6	78 931
		107 470 339

The increase in the amount for Current Assets is mainly due to the increase in the Receivables from Exchange Transactions.

Refer to the indicated Notes for more detail.

**15. INTER-GOVERNMENTAL GRANTS**

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

Refer to Notes 18 and 27, and Appendix "F" for more detail.

**16. EVENTS AFTER THE REPORTING DATE**

Full details of all known events, if any, after the reporting date are disclosed in Note 61.

**17. GENERAL RECOGNISED ACCOUNTING PRACTICE (GRAP)**

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the Annual Financial Statements have been converted to the new reporting GRAP-format.

**18. EXPRESSION OF APPRECIATION**

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

\_\_\_\_\_  
CHIEF FINANCIAL OFFICER  
31 August 2012



**EMTHANJENI LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**INDEX**

Description	Page no.
Statement of Financial Position	9
Statement of Financial Performance	10
Statement of Changes in Net Assets	11
Cash Flow Statement	12
Notes to the Financial Statements	13
<b>The following appendices do not form part of the Annual Financial Statements and are unaudited:</b>	
Appendix A	113
Appendix B	115
Appendix C	117
Appendix D	118
Appendix E	119
Appendix F	120

**EMTHANJENI LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012**

		Actual	
	Note	2012	Restated 2011
		R	R
<b>ASSETS</b>			
<b>Current Assets</b>		<b>107 470 339</b>	<b>103 227 751</b>
Inventory	2	46 078 743	45 986 510
Receivables from Exchange Transactions	3	39 144 555	40 831 259
Receivables from Non-exchange Transactions	4	7 788 763	7 192 445
Bank, Cash and Cash Equivalents	5	14 379 346	9 160 618
Operating Lease Assets	6	78 931	43 480
Current Portion of Long-term Receivables	7	-	13 438
<b>Non-Current Assets</b>		<b>1 029 731 322</b>	<b>1 080 409 915</b>
Property, Plant and Equipment	8	1 025 429 449	1 075 119 945
Intangible Assets	9	1 062 346	1 611 012
Investment Property	10	3 106 800	3 440 900
Non-current Investments	12	10 940	7 678
Operating Lease Assets	6	120 623	200 253
Long-term Receivables	13	1 164	30 126
<b>Total Assets</b>		<b>1 137 201 660</b>	<b>1 183 637 666</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>37 395 383</b>	<b>24 151 151</b>
Consumer Deposits	14	1 781 959	1 710 596
Current Portion of Retirement Benefit Liabilities	15	1 282 656	1 091 123
Creditors from Exchange Transactions	16	12 003 563	8 214 306
Creditors from Non-exchange Transactions	17	772 728	728 119
Unspent Conditional Grants and Receipts	18	11 954 426	2 325 389
VAT Payable	19	2 189 259	4 036 539
Bank Overdraft	5	5 154 118	4 020 092
Current Portion of Long-term Liabilities	20	2 256 675	2 024 986
<b>Non-Current Liabilities</b>		<b>38 209 664</b>	<b>41 019 756</b>
Long-term Liabilities	20	8 510 509	10 792 632
Retirement Benefit Liabilities	21	24 626 029	25 507 607
Non-current Provisions	22	2 467 105	2 412 280
Long Service Award	23	2 606 021	2 307 237
<b>Total Liabilities</b>		<b>75 605 047</b>	<b>65 170 907</b>
<b>Total Assets and Liabilities</b>		<b>1 061 596 613</b>	<b>1 118 466 758</b>
<b>NET ASSETS</b>			
Reserves	24	186 444 178	198 634 515
Accumulated Surplus / (Deficit)	25	875 152 435	919 832 243
<b>Total Net Assets</b>		<b>1 061 596 613</b>	<b>1 118 466 758</b>

**EMTHANJENI LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012**

		Actual	
	Note	2012	Restated 2011
		R	R
<b>REVENUE</b>			
<b>Revenue from Non-exchange Transactions</b>			
Property Rates	26	14 337 195	12 192 849
Property Rates - Penalties imposed and collection charges	32	223 361	175 921
Fines	27	6 703 169	8 698 596
Licences and Permits	28	1 107 196	1 086 425
Government Grants and Subsidies Received	29	43 887 412	41 477 597
<b>Revenue from Exchange Transactions</b>			
Service Charges	30	76 226 722	66 005 131
Rental of Facilities and Equipment	31	587 101	565 603
Interest Earned - External Investments	32	585 044	903 394
Interest Earned - Outstanding Debtors	32	1 115 696	842 999
Dividends Received		-	540
Other Income	33	5 547 365	20 197 863
Other Gains on Continued Operations	44	3 262	467
Gains on Disposal of Property, Plant and Equipment		-	16 791
<b>Total Revenue</b>		<b>150 323 523</b>	<b>152 164 177</b>
<b>EXPENDITURE</b>			
Employee Related Costs	34	46 227 048	51 491 497
Remuneration of Councillors	35	3 421 246	3 223 142
Depreciation and Amortisation	36	68 650 425	66 837 113
Impairment Losses	37	16 971 219	1 765 894
Repairs and Maintenance	38	8 679 225	9 714 320
Finance Costs	39	1 284 487	754 856
Bulk Purchases	40	34 105 602	26 379 586
Contracted Services	41	8 689 470	8 970 331
Grants and Subsidies Paid	42	788 172	567 870
General Expenses	43	17 982 271	17 532 266
Loss on Disposal of Property, Plant and Equipment		44 914	-
Loss on Sale of Land		288 719	382 404
Inventory Written-off		60 870	605 257
<b>Total Expenditure</b>		<b>207 193 669</b>	<b>188 224 536</b>
<b>(DEFICIT) FOR THE YEAR</b>		<b>(56 870 146)</b>	<b>(36 060 359)</b>

**EMTHANJENI LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2012**

Description	Revaluation Reserve	Accumulated Surplus / (Deficit) Account		Total for Accumulated Surplus/(Deficit) Account	Total
		Capital Replacement Reserve	Accumulated Surplus / (Deficit)		
<b>2011</b>					
Balance at 30 June 2010	R			R	R
Correction of Error (Note 45)	283 487 410	2 252 793	592 815 734	595 068 527	878 555 937
<b>Restated Balance</b>	(72 672 435)	-	348 643 615	348 643 615	275 971 180
Surplus / (Deficit) for the year	<b>210 814 974</b>	<b>2 252 793</b>	<b>941 459 349</b>	<b>943 712 142</b>	<b>1 154 527 117</b>
Depreciation transfer for Land and Buildings (Note 24)	-	-	(36 060 359)	(36 060 359)	(36 060 359)
<b>Balance at 30 June 2011</b>	(12 180 460)	-	12 180 460	12 180 460	-
	<b>198 634 515</b>	<b>2 252 793</b>	<b>917 579 450</b>	<b>919 832 243</b>	<b>1 118 466 758</b>
<b>2012</b>					
<b>Restated Balance</b>	<b>198 634 515</b>	<b>2 252 793</b>	<b>917 579 450</b>	<b>919 832 243</b>	<b>1 118 466 758</b>
Surplus / (Deficit) for the year	-	-	(56 870 146)	(56 870 146)	(56 870 146)
Depreciation transfer for Land and Buildings (Note 24)	(12 190 337)	-	12 190 337	12 190 337	-
<b>Balance at 30 June 2012</b>	<b>186 444 178</b>	<b>2 252 793</b>	<b>872 899 641</b>	<b>875 152 434</b>	<b>1 061 596 612</b>
		-		-	

Details on the movement of the Funds and Reserves are set out in [Note 24](#) and [Note 25](#).

**EMTHANJENI LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 R	Actual Restated 2011 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from Ratepayers, Government and Other		147 882 350	98 886 077
Cash paid to Suppliers and Employees		(123 933 235)	(92 132 095)
<b>Cash generated from / (utilised in) Operations</b>	<b>47</b>	<b>23 949 115</b>	<b>6 753 982</b>
Dividends received		-	540
Interest received	<b>32</b>	1 924 100	1 922 314
Interest paid	<b>39</b>	(1 284 487)	(754 856)
<b>NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES</b>		<b>24 588 729</b>	<b>7 921 980</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	<b>8</b>	(18 516 991)	(20 618 114)
Purchase of Intangible Assets	<b>9</b>	(25 609)	(51 842)
Proceeds on Disposal of Property, Plant and Equipment		1 226	160 260
Proceeds on Disposal of Investment Property		45 381	-
Decrease / (Increase) in Long-term Receivables	<b>13</b>	42 401	12 709
<b>NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>		<b>(18 453 591)</b>	<b>(20 496 987)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New Loans raised		-	9 000 000
Loans repaid		(2 050 435)	(1 349 765)
<b>NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>		<b>(2 050 435)</b>	<b>7 650 235</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>4 084 702</b>	<b>(4 924 772)</b>
Cash and Cash Equivalents at the beginning of the year	<b>5</b>	5 140 526	10 065 298
Cash and Cash Equivalents at the end of the year	<b>5</b>	9 225 228	5 140 526

# EMTHANJENI LOCAL MUNICIPALITY

## ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 1. BASIS OF PRESENTATION

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

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

#### 1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

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

For the years ended 30 June 2011 and 30 June 2012 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only in the following instances:

(a) is required by a Standard of GRAP; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

#### 1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

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

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

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

##### 1. 2. 1 Revenue Recognition

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

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

# EMTHANJENI LOCAL MUNICIPALITY

## ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 1. BASIS OF PRESENTATION (Continued)

#### 1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

##### 1. 2. 2 *Financial Assets and Liabilities*

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 8.1 on *Financial Assets Classification* and Accounting Policy 8.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement*.

##### 1. 2. 3 *Impairment of Financial Assets*

Accounting Policy 8.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

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. The total increase in estimation of the impairment of trade and other receivables from exchange transactions amounted to R16 930 242 and that of trade and other receivable from non exchange transactions to R1 702 538.

##### 1. 2. 4 *Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property*

As described in Accounting Policies 3.3, 4 and 5 the municipality depreciates / amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

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

##### 1. 2. 5 *Impairment: Write down of Property, Plant and Equipment and Inventories*

Accounting Policy 6.2 on *Intangible Assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 9.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

# EMTHANJENI LOCAL MUNICIPALITY

## ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 1. BASIS OF PRESENTATION (Continued)

#### 1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

##### 1. 2. 5 *Impairment: Write down of Property, Plant and Equipment and Inventories (continued)*

In making the above-mentioned estimates and judgements, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Cash generating Assets and GRAP 26: Impairment of non-Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management. During the year the estimated impairments to Property plant and equipment amounted to R85 195, whilst no impairments were made to intangible assets or inventory.

##### 1. 2. 6 *Water inventory*

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to Note 9 of the accounting policy notes to the Annual Financial Statements.

##### 1. 2. 7 *Defined Benefit Plan Liabilities*

As described in Accounting Policy 21, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 21 and 23 to the Annual Financial Statements.

##### 1. 2. 8 *Budget information*

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

#### 1. 3 PRESENTATION CURRENCY

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

#### 1. 4 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on a going concern basis.

#### 1. 5 OFFSETTING

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