

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012	2011
	R	R
54. FINANCIAL INSTRUMENTS (Continued)		
Total Financial Assets	61 324 767	57 235 565

FINANCIAL LIABILITIES:

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

<u>Financial Liabilities</u>	<u>Classification</u>		
Long-term Liabilities			
Annuity Loans	Financial liabilities at amortised cost	8 510 509	10 769 029
Consumer Deposits			
Electricity and Water	Financial liabilities at amortised cost	1 781 959	1 710 596
Creditors from Exchange Transactions			
Trade Creditors	Financial liabilities at amortised cost	2 641 528	604 151
Payments received in Advance	Financial liabilities at amortised cost	1 257 370	797 218
Staff Bonuses	Financial liabilities at amortised cost	1 174 230	1 312 937
Accrued Leave	Financial liabilities at amortised cost	4 525 533	4 172 548
Sundry Deposits	Financial liabilities at amortised cost	199 745	180 501
Other Creditors	Financial liabilities at amortised cost	2 205 156	1 146 951
Creditors from Non-exchange Transactions			
Payments received in Advance	Financial liabilities at amortised cost	772 728	728 078
Bank Overdraft			
Bank Overdraft	Financial liabilities at amortised cost	5 154 118	4 020 092
Current Portion of Long-term Liabilities			
Annuity Loans	Financial liabilities at amortised cost	2 233 071	1 997 470

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

Long-term Liabilities	Annuity Loans	8 510 509	10 769 029
Consumer Deposits	Electricity and Water	1 781 959	1 710 596
Creditors from Exchange Transactions	Trade Creditors	2 641 528	604 151
Creditors from Exchange Transactions	Payments received in Advance	1 257 370	797 218
Creditors from Exchange Transactions	Staff Bonuses	1 174 230	1 312 937
Creditors from Exchange Transactions	Accrued Leave	4 525 533	4 172 548
Creditors from Exchange Transactions	Sundry Deposits	199 745	180 501
Creditors from Exchange Transactions	Other Creditors	2 205 156	1 146 951
Creditors from Non-exchange Transactions	Payments received in Advance	772 728	728 078
Bank Overdraft	Bank Overdraft	5 154 118	4 020 092
Current Portion of Long-term Liabilities	Annuity Loans	2 233 071	1 997 470
Total Financial Liabilities		30 455 947	27 439 571

54.2 Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Bank, Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

Non-current Investments

The fair values of some investments are estimated, based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

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54. FINANCIAL INSTRUMENTS (Continued)

Loan Receivables/Payables

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and, therefore, the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed-interest-rate instruments are fair-valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables

The fair value of trade and other payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The fair value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

In accordance with IAS 39.09 the Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements to approximate their fair values on 30 June 2012, as a result of the short-term maturity of these assets and liabilities.

	2012		2011	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL ASSETS				
Held to maturity:				
	6 284 366	6 284 366	8 891 958	8 891 958
Current Portion of Investments	6 284 366	6 284 366	8 891 958	8 891 958
Loans and Receivables	55 040 401	55 040 401	48 343 607	48 343 607
Long-term Receivables	1 164	1 164	30 126	30 126
Trade and Other Receivables from Exchange Transactions	45 463 034	45 463 034	46 304 599	46 304 599
Trade and Other Receivables from Non-Exchange Transactions	1 470 283	1 470 283	1 719 105	1 719 105
Bank, Cash and Cash Equivalents	8 094 980	8 094 980	268 660	268 660
Non-current Investments	10 940	10 940	7 678	7 678
Current Portion of Long-term Receivables	-	-	13 438	13 438
Total Financial Assets	61 324 767	61 324 767	57 235 565	57 235 565

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	2012		2011	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL LIABILITIES				
Amortised Cost				
Unsecured Bank Facilities:	13 664 627	13 664 627	14 789 121	14 789 121
- Long-term Liabilities	8 510 509	8 510 509	10 769 029	10 769 029
- Bank Overdraft	5 154 118	5 154 118	4 020 092	4 020 092
Trade and Other Payables:	16 791 320	16 791 320	12 650 450	12 650 450
- Consumer Deposits	1 781 959	1 781 959	1 710 596	1 710 596
- Creditors from Exchange Transactions	12 003 563	12 003 563	8 214 306	8 214 306
- Creditors from Non-exchange Transactions	772 728	772 728	728 078	728 078
- Current Portion of Long-term Liabilities	2 233 071	2 233 071	1 997 470	1 997 470
Total Financial Liabilities	30 455 947	30 455 947	27 439 571	27 439 571
Total Financial Instruments	30 868 819	30 868 819	29 795 994	29 795 994
Unrecognised Gain / (Loss)		-		-

At the reporting date there are no significant concentrations of credit risk for Loans and Receivables at Fair Value. The carrying amount reflected above represents the municipality's maximum exposure to credit risk for such loans and receivables.

There were no reclassifications of financial assets during the financial period.

Assumptions used in determining fair value of Financial Assets and Financial Liabilities

The table below analyses financial instruments carried at fair value at the end of the reporting period, by level of fair-value hierarchy as required by IFRS 7. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments, and the levels have been defined as follows:

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments, where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	2012			
	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value	10 940	-	14 379 346	14 390 286
Non-current Investments	10 940	-	-	10 940
Short-term Portion of Investments	-	-	6 284 366	6 284 366
Bank, Cash and Cash Equivalents	-	-	8 094 980	8 094 980
Total Financial Assets	10 940	-	14 379 346	14 390 286

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	2012			2012	2011
	Level 1	Level 2	Level 3	R	R
	R	R	R		
FINANCIAL LIABILITIES					
Financial Instruments at Fair Value	-	-	10 292 468		10 292 468
Unsecured Bank Facilities:					
- Annuity Loans	-	-	8 510 509		8 510 509
- Consumer Deposits	-	-	1 781 959		1 781 959
Total Financial Liabilities	-	-	10 292 468		10 292 468
Total Financial Instruments	10 940	-	4 086 878		4 097 818
	2011				
	Level 1	Level 2	Level 3	R	R
	R	R	R		
FINANCIAL ASSETS					
Financial Instruments at Fair Value	7 678	-	9 160 618		9 168 296
Non-current Investments	7 678	-	-		7 678
Short-term Portion of Investments	-	-	8 891 958		8 891 958
Bank, Cash and Cash Equivalents	-	-	268 660		268 660
Total Financial Assets	7 678	-	9 160 618		9 168 296
	Level 1	Level 2	Level 3		
	R	R	R	R	R
FINANCIAL LIABILITIES					
Financial Instruments at Fair Value	-	-	16 499 717		16 499 717
Unsecured Bank Facilities:					
- Long-term Liabilities	-	-	10 769 029		10 769 029
- Bank Overdraft	-	-	4 020 092		4 020 092
- Consumer Deposits	-	-	1 710 596		1 710 596
Total Financial Liabilities	-	-	16 499 717		16 499 717
Total Financial Instruments	7 678	-	(7 339 099)		(7 331 421)

54.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 20, Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 5 and the Statement of Changes in Net Assets.

Gearing Ratio

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 95,00%, reducing to 90,00%. This aggressive ratio is as a result of the development challenges faced by the municipality. The rate of borrowing is well below market related rates.

The gearing ratio at the year-end was as follows:

Debt	15 897 698	16 786 591
Bank, Cash and Cash Equivalents	8 094 980	268 660
Net Debt	<u>23 992 678</u>	<u>17 055 251</u>
Equity	<u>1 179 365 684</u>	<u>1 049 322 116</u>
Net debt to equity ratio	<u>2.03%</u>	<u>1.63%</u>

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54. FINANCIAL INSTRUMENTS (Continued)

Debt is defined as Long- and Short-term Liabilities, as detailed in Note 20.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance.

RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

54.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the Municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Further quantitative disclosures are included throughout these financial statements.

54.5 Disclosure of significant risks

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The Municipality has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Risks and exposure are disclosed as follows:

Market Risk

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

Credit Risk

Credit risk is the risk of financial loss to the Municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity risk is the risk that the Municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Municipality's reputation.

Liquidity risk is managed by ensuring that financial assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 54.8 to the annual financial statements.

54.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

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

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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54. FINANCIAL INSTRUMENTS (Continued)

54.6.1 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings, such borrowing being below market related rates.

Interest Rate Sensitivity Analysis

The sensitivity analysis below was determined based on the exposure to interest rates at the reporting date. For variable rate long-term instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 54.8 below.

Effect of a change in interest rate on interest bearing financial assets and liabilities:

<u>Financial Assets</u>	<u>Classification</u>		
<u>External investments:</u>			
Call Deposits	Loans and receivables	8 062 686	207 287
Notice Deposits	Loans and receivables	6 284 366	8 891 958
Bank Balances	Loans and receivables	31 134	60 213
Cash Floats and Advances	Loans and receivables	1 160	1 160
		<u>14 379 346</u>	<u>9 160 618</u>
<u>Interest received</u>			
Interest Earned - External Investments		<u>585 044</u>	<u>903 394</u>
Interest rate		<u>4%</u>	<u>10%</u>
<i>Effect of a change in interest rate on interest earned from external investments:</i>			
Effect of change in interest rate	%	-1%	-1%
Effect of change in interest rate	Rand value	<u>(143 793)</u>	<u>(91 606)</u>
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	<u>143 793</u>	<u>91 606</u>
<u>Outstanding debtors:</u>			
Consumer Debtors	Loans and receivables	45 463 034	46 304 599
Sundry Debtors	Loans and receivables	1 470 283	1 719 105
		<u>46 933 317</u>	<u>48 023 704</u>
<u>Interest received</u>			
Interest Earned - Outstanding Debtors		<u>1 339 057</u>	<u>1 018 921</u>
Interest rate		<u>3%</u>	<u>2%</u>
<i>Effect of a change in interest rate on interest earned from outstanding debtors</i>			
Effect of change in interest rate	%	-1%	-1%
Effect of change in interest rate	Rand value	<u>-469 333</u>	<u>-480 237</u>
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	<u>469 333</u>	<u>480 237</u>

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		2012 R	2011 R
54. FINANCIAL INSTRUMENTS (Continued)			
<u>Financial Liabilities</u>	<u>Classification</u>		
<u>Long-term Liabilities</u>			
Annuity Loans	Amortised cost	8 510 509	10 769 029
Annuity Loans - current portion	Amortised cost	2 233 071	1 997 470
		10 743 580	12 766 499
<u>Interest paid</u>			
Long-term Liabilities		1 278 855	735 428
Interest rate %		12%	6%
<u>Effect of a change in interest rate on interest paid on long-term liabilities</u>			
Effect of change in interest rate	%	-1%	-1%
Effect of change in interest rate	Rand value	-107 436	-127 665
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	107 436	127 665
<u>Bank Overdrafts and Other</u>			
Bank Overdraft	Amortised cost	5 154 118	4 020 092
		5 154 118	4 020 092
<u>Interest paid</u>			
Bank Overdrafts and Other		1 497	10 669
Interest rate %		0%	0%
<u>Effect of a change in interest rate on interest paid on bank overdrafts and other</u>			
Effect of change in interest rate	%	-1%	-1%
Effect of change in interest rate	Rand value	-51 541	-40 201
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	51 541	40 201

54.6.2 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

54.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/ Cash and Cash Equivalents

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The Municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the Entity does not consider there to be any significant exposure to credit risk.

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54. FINANCIAL INSTRUMENTS (Continued)

Receivables from exchange and non-exchange transactions

Trade and other receivables are amounts owing by consumers, and are presented net of impairment losses. The Municipality has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The Municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness, subsequently the Municipality has no control over the approval of new customers who acquire properties in the designated metro area and consequently incur rates, water and electricity debts.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- through the application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.
- a new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- through the consolidation of rates and service accounts, thereby disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- through the requirement of a deposit for new service connections, serving as guarantee
- through encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The Municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The Municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The Municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Long-term Receivables	1 164	43 564
Consumer Debtors	75 106 027	57 314 812
Other Debtors	1 470 283	1 719 105
Bank, Cash and Cash Equivalents	14 379 346	9 160 618

Maximum Credit and Interest Risk Exposure

90 956 820 **68 238 100**

The major concentrations of credit risk that arise from the Municipality's receivables in relation to customer classification are as follows:

Consumer debtors:		
Household	59%	59%
Industrial/Commercial	12%	12%
National and Provincial Government	15%	15%
Other consumer debtors	5%	5%
Other debtors:		
Other	9%	9%
	<u>100%</u>	<u>100%</u>

At 30 June 2012 the Municipality had 1,020 customers (2011: 1,410 customers) that owed the Municipality more than R10 000 each and accounted for approximately 26,47% (2011: 45,78%) of all receivables owing. There were 25 customers (2011: 23 customers) with balances greater than R100 000 accounting for just over 8,58% (2011: 21,72%) of the total amounts receivable.

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54. FINANCIAL INSTRUMENTS (Continued)

The credit quality of the consumer Debtors, Rate Assessment Debtors and other receivables and Long-term Receivables have been determined by using their respective categories and was determined as follows:

	Household R	Business R	Government R	Indigents R	Total R
Consumer Debtors					
Very Good	2 110 418	1 105 516	1 598 761	-	4 814 695
Good	31 481 166	1 533 750	-	-	33 014 915
Average	6 887 173	3 087 863	-	-	9 975 036
Poor	-	-	-	-	-
Bad	256 448	50 383	-	-	306 831
Very Bad	-	-	-	16 749 586	16 749 586
	<u>40 735 205</u>	<u>5 777 511</u>	<u>1 598 761</u>	<u>16 749 586</u>	<u>64 861 063</u>
Rate Assessment and Other Receivables					
Very Good	-	-	-	-	-
Good	1 319 935	75 176	-	-	1 395 111
Average	10 162	-	-	-	10 162
Poor	-	-	-	-	-
Bad	430	-	-	-	430
Very Bad	-	-	-	965 079	965 079
	<u>1 330 527</u>	<u>75 176</u>	<u>-</u>	<u>965 079</u>	<u>2 370 782</u>
Long-term Receivables					
Very Good	-	1 164	-	-	1 164
Good	-	-	-	-	-
Average	-	-	-	-	-
Poor	-	-	-	-	-
Bad	-	-	-	-	-
Very Bad	-	-	-	-	-
	<u>-</u>	<u>1 164</u>	<u>-</u>	<u>-</u>	<u>1 164</u>

EMTHANJENI LOCAL MUNICIPALITY
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54. FINANCIAL INSTRUMENTS (Continued)

54.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 49 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. A credit line overdraft facility of R1 million is available and is unsecured. Interest payable is linked to the prime interest rate.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS #	Average effective Interest Rate %	Total R	6 Months	6 - 12	1 - 2	2 - 5	More than
				or less R	Months R	Years R	Years R	5 Years R
30 June 2012								
Non-interest Bearing								
- Consumer Deposits	14	0.00%	10 032 717	10 032 717	-	-	-	-
- Creditors from Exchange Transactions	16	0.00%	1 781 959	1 781 959	-	-	-	-
- Creditors from Non-exchange Transactions	17	0.00%	7 478 030	7 478 030	-	-	-	-
			772 728	772 728	-	-	-	-
Variable Interest Rate Instruments								
- ABSA Bank Ltd	20	9.70%	8 745 836	1 166 112	1 166 112	2 332 223	4 081 390	-
			8 745 836	1 166 112	1 166 112	2 332 223	4 081 390	-
Fixed Interest Rate Instruments								
- DBSA (1150 563)	20	10.00%	4 639 147	486 124	486 124	972 248	2 694 650	-
- DBSA (1150 566)	20	12.00%	888 377	111 047	111 047	222 094	444 188	-
			3 750 770	375 077	375 077	750 154	2 250 462	-
			23 417 700	11 684 952	1 652 236	3 304 471	6 776 041	-

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54. FINANCIAL INSTRUMENTS (Continued)

Description	Note ref in AFS #	Average effective Interest Rate %	Total R	6 Months or less R	6 - 12 Months R	1 - 2 Years R	2 - 5 Years	More than 5 Years R
30 June 2011								
Non-interest Bearing								
- Consumer Deposits	14	0.00%	6 480 431	6 480 431	-	-	-	-
- Creditors from Exchange Transactions	16	0.00%	1 710 596	1 710 596	-	-	-	-
- Creditors from Non-exchange Transactions	17	0.00%	4 041 757	4 041 757	-	-	-	-
			728 078	728 078	-	-	-	-
Variable Interest Rate Instruments								
- ABSA Bank Ltd	20	9.70%	11 078 059	1 166 112	1 166 112	2 332 223	6 413 613	-
			11 078 059	1 166 112	1 166 112	2 332 223	6 413 613	-
Fixed Interest Rate Instruments								
- DBSA (1150 563)	20	10.00%	5 611 395	486 124	486 124	972 248	2 916 745	750 154
- DBSA (1150 566)	20	12.00%	1 110 471	111 047	111 047	222 094	666 283	-
			4 500 924	375 077	375 077	750 154	2 250 462	750 154
			23 169 886	8 132 667	1 652 236	3 304 471	9 330 358	750 154

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

54. FINANCIAL INSTRUMENTS (Continued)

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months		6 - 12 Months	1 - 2 Years		2 - 5 Years	More than 5 Years
				R	or less R		R	R		
30 June 2012										
Non-interest Bearing										
- Long-term Receivables	13	0.00%	46 965 616	46 964 452	-	-	-	-	-	1 164
- Trade Receivables from Exchange Transactions	3	0.00%	1 164	-	-	-	-	-	-	1 164
- Trade Receivables from Non-exchange Transactions	4	0.00%	39 144 555	39 144 555	-	-	-	-	-	-
- Cash and Cash Equivalents	5	0.00%	7 788 763	7 788 763	-	-	-	-	-	-
			31 134	31 134	-	-	-	-	-	-
Variable Interest Rate Instruments										
- Call Deposits	5		8 062 686	8 062 686	-	-	-	-	-	-
			8 062 686	8 062 686	-	-	-	-	-	-
Fixed Interest Rate Instruments										
- Notice Deposits	5		6 284 366	6 284 366	-	-	-	-	-	-
			6 284 366	6 284 366	-	-	-	-	-	-
			61 312 668	61 311 504	-	-	-	-	-	1 164
30 June 2011										
Non-interest Bearing										
- Long-term Receivables	13	0.00%	48 127 482	48 083 917	-	-	-	-	-	43 564
- Trade Receivables from Exchange Transactions	3	0.00%	43 564	-	-	-	-	-	-	43 564
- Trade Receivables from Non-exchange Transactions	4	0.00%	40 831 259	40 831 259	-	-	-	-	-	-
- Cash and Cash Equivalents	5	0.00%	7 192 445	7 192 445	-	-	-	-	-	-
			60 213	60 213	-	-	-	-	-	-
Variable Interest Rate Instruments										
- Call Deposits	5		207 287	207 287	-	-	-	-	-	-
			207 287	207 287	-	-	-	-	-	-
Fixed Interest Rate Instruments										
- Notice Deposits	5		8 891 958	8 891 958	-	-	-	-	-	-
			8 891 958	8 891 958	-	-	-	-	-	-
			57 226 727	57 183 162	-	-	-	-	-	43 564

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

54. FINANCIAL INSTRUMENTS (Continued)

The municipality has access to financing facilities, the total unused amount which is R1 million (2011: R1 million), at the reporting date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio. This will be achieved through increased service tariff charges and the increased use of unsecured bank loan facilities.

54.9 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

55. MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R5 310 466 (2011: R5 333 360) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED CONTRIBUTION SCHEMES

Municipal Councillors Pension Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R1 483, 786 381 (30 June 2009: R1 341, 935 205) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the investment reserve of the fund amounted to R63,977 (30 June 2010: R190,464) million, with a funding level of 98,1% (30 June 2010: 100,0%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R9 930,837 (30 June 2010: R7 740,205) million, with funding levels of 100,3% and 116,9% (30 June 2010: 99,9% and 100,3%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,50%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

SALA Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R7 110,3 (30 June 2009: R6 303,7) million, with funding levels of 96,0% (30 June 2009: 96,0%). The contribution rate paid by the members (8,6%) and Council (20,78%) is sufficient to fund the benefits accruing from the fund in the future.

Refer to Note 21 for the Employee Related Costs.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

56. RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

56.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
Jood J	Councillor	Buildsec
		O R Begrafnis Diens
		De Aar Construction
Freddie MM	Councillor	Britstown Small Farmers
Manuel MF	Chief Financial Officer	Qala Kancini Consultants
Visser I	Municipal Manager	Siyathemba Social Development Projects
Appies CP	Manager: Housing	KCA Trading Enterprise
Tshawe PB	Manager: Electro Technical Services	Phetha Electrical and Trade
		Intelimax
Alexander JRM	Manager: Corporate Services	Lezmin 2649
		Emthanjeni Fertilizer and Garden Service
Jack M	Supply Chain Accountant	Jack and Son's Transport

56.2 Services rendered to Related Parties

During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

	Rates Charges R	Service Charges R	Sundry Charges R
For the Year ended 30 June 2012			
Councillors	22 999	58 168	2 775
Municipal Manager and Section 57 Personnel	18 225	34 789	8 017
Total Services	41 225	92 957	10 792
For the Year ended 30 June 2011			
Councillors	14 261	54 462	132
Municipal Manager and Section 57 Personnel	17 923	27 270	7 336
Total Services	32 183	81 732	7 467

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

56.3 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 34 and 35 respectively, to the Annual Financial Statements.

56.4 Purchases from Related Parties

The municipality did not buy goods from any companies which can be considered to be Related Parties.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
57. CONTINGENT LIABILITIES		
57.1 Court Proceedings:	<u>2 224 373</u>	<u>948 036</u>
(i) Telkom: The Municipality has been summonsed for an amount of R35 568. Should the Municipality lose this matter in court, the total amount to be paid will amount to the R37 607, including interest at 15.5% per month, calculated from 2012/02/16.	37 607	-
The legal costs applicable is estimated to be R20 000.		
(ii) Cape Joint Pension Fund: During the actuarial valuation performed on the fund, it was found that the interest on the total monies of the Fund was lower than 5.50% for the year ended June 2009.	2 186 766	-
This resulted in Rule 17(5) being enforced by the Fund, resulting in the liability of R2 186 766 for the Municipality, as well as any additional interest to be charged from February 2010.		
The Municipality however opted to consent to the extension of the prescription period to afford the Fund an opportunity to find an amicable solution.		
The summons was withdrawn by the Fund, but the Fund reserved the right to claim the deficit from the Municipality.		
57.2 Landfill sites:		
(i) Landfill sites: The Municipality has three active landfill sites. It has been identified that the landfill sites situated in Britstown and Hanover are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).	-	-
In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.		
The necessary steps have been taken by the Municipality to obtain the required permits and licenses and the process has been started.		
58. CONTINGENT ASSETS		
The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.		
59. IN-KIND DONATIONS AND ASSISTANCE		
The municipality did not receive any In-kind Donations and Assistance during the year under review.		
60. PRIVATE PUBLIC PARTNERSHIPS		
The municipality was not a party to any Private Public Partnerships during the financial year 2011/2012.		
61. EVENTS AFTER THE REPORTING DATE		
No events having financial implications requiring disclosure occurred subsequent to 30 June 2012.		
62. COMPARATIVE FIGURES		
The comparative figures were restated as a result of the effect of Prior Period Errors (Note 45).		

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
63. RECONCILIATION OF BUDGET SURPLUS/(DEFICIT) WITH THE SURPLUS/(DEFICIT) IN THE STATEMENT OF FINANCIAL PERFORMANCE		
Net surplus/(deficit) per the statement of financial performance	(56 870 146)	(36 060 359)
Revenue from Non-exchange Transactions		
Property Rates	983 733	3 930 415
Property Rates - Penalties imposed and collection charges	(127 961)	(85 921)
Fines	1 821 069	286 534
Licences and Permits	(12 556)	(53 745)
Government Grants and Subsidies	4 563 588	2 652 231
Revenue from Exchange Transactions	-	
Service Charges	(5 022 401)	5 928 337
Rental of Facilities and Equipment	(114 977)	(135 252)
Interest Earned - External investments	101 095	(256 094)
Interest Earned - Outstanding debtors	(409 736)	(176 999)
Dividends Received	-	(540)
Other Income	(3 205 813)	(19 474 805)
Other Gains on Continued Operations	(3 262)	(467)
Gains on Disposal of Property, Plant and Equipment	-	(11 791)
Expenditure		
Employee Related Costs	(1 313 924)	8 174 586
Remuneration of Councillors	81 377	(4 930)
Collection Costs	(177 385)	(167 344)
Depreciation	67 179 880	52 493 529
Impairment Losses	9 470 510	(5 547 285)
Repairs and Maintenance	(7 618 550)	(5 665 955)
Interest Paid	(222 623)	(880 620)
Bulk Purchases	77 335	(1 601 334)
Contracted Services	417 725	1 801 231
Grants and Subsidies Paid	(13 530 128)	(19 620 506)
General Expenses	(2 372 439)	(1 068 284)
Loss on Disposal of Property, Plant and Equipment	50 214	-
Loss on Sale of Land	288 719	382 404
Inventory Written-off	60 870	605 257
Net surplus/deficit per approved budget	<u>(5 905 787)</u>	<u>(14 557 708)</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

64. ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2012

Description	2011/12	2011/12	2011/12	2011/12	Explanation of Significant Variances greater than 10% versus Budget
	Actual	Budget	Variance	Variance	
	R	R	R	%	
REVENUE					
Property Rates	14 337 195	15 320 928	(983 733)	(6.86)	No material fluctuations.
Property Rates - Penalties imposed and collection charges	223 361	95 400	127 961	57.29	Debtor recovery slower than planned, resulting in the interest increasing.
Fines	6 703 169	8 524 238	(1 821 069)	(27.17)	Fines income from TVS overbudgeted for.
Licences and Permits	1 107 196	1 094 641	12 556	1.13	No material fluctuations.
Government Grants and Subsidies	43 887 412	48 451 000	(4 563 588)	(10.40)	MIG projects not fully finalised, resulting in less conditions being met.
Service Charges	76 226 722	71 204 321	5 022 401	6.59	No material fluctuations.
Rental of Facilities and Equipment	587 101	472 123	114 977	19.58	Encroachment was over estimated, in contradiction with the 2011 amounts.
Interest Earned - External investments	585 044	686 138	(101 095)	(17.28)	Cash balances did not maintain the expected levels.
Interest Earned - Outstanding debtors	1 115 696	705 960	409 736	36.72	Debtor recovery slower than planned, resulting in the interest increasing.
Other Income	5 547 365	2 341 551	3 205 813	57.79	Provision for impairment on debtors resulted in income. VAT on MIG projects (own income) was not sufficiently budgeted for.
Other Gains on Continued Operations	3 262	-	3 262	100.00	Fair value adjustment of OVK shares were not budgeted for.
Gains on Disposal of Property, Plant and Equipment	-	5 300	(5 300)	(100.00)	Gains from auction was budgeted for, but auction was not as successful.
Total Revenue	150 323 523	148 901 601	1 421 922	0.95	
EXPENDITURE					
Employee Related Costs	(46 227 048)	(47 540 973)	1 313 924	(2.84)	No material fluctuations.
Remuneration of Councillors	(3 421 246)	(3 339 869)	(81 377)	2.38	No material fluctuations.
Collection Costs	-	(177 385)	177 385	(100.00)	Collection costs not incurred, as was the case in 2011.
Depreciation	(68 677 534)	(1 470 545)	(67 206 988)	97.86	Due to backlog depreciation, as was the case in 2011.
Impairment Losses	(16 971 219)	(7 500 709)	(9 470 510)	(100.00)	Due to decrease in provision for impairment on debtors balance (resulting in income being recognised).
Repairs and Maintenance	(8 679 225)	(16 297 775)	7 618 550	(87.78)	Less repairs than budgeted for.
Interest Paid	(1 284 487)	(1 507 110)	222 623	(17.33)	No new loans and default payments.
Bulk Purchases	(34 105 602)	(34 028 267)	(77 335)	0.23	No material fluctuations.
Contracted Services	(8 689 470)	(8 271 745)	(417 725)	4.81	No material fluctuations.
Grants and Subsidies Paid	(788 172)	(14 318 300)	13 530 128	(1 716.65)	Difference relates to incorrect classification.
General Expenses	(17 982 271)	(20 354 711)	2 372 439	(13.19)	Less general expenses than budgeted for.
Loss on Disposal of Property, Plant and Equipment	(44 914)	-	(44 914)	100.00	Gains from auction was budgeted for, but auction was not as successful.
Loss on Sale of Land	(288 719)	-	(288 719)	100.00	Sale of investment property was not budgeted for.
Inventory Written-off	(60 870)	-	(60 870)	100.00	Write-off of inventory was not budgeted for.
Total Expenditure	(207 220 777)	(154 807 388)	(52 413 389)	33.86	
NET SURPLUS / (DEFICIT) FOR THE YEAR	(56 897 254)	(5 905 787)	(50 991 467)	(863.42)	

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

64. ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) (Continued)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

Description	2010/11	2010/11	2010/11	2010/11	Explanation of Significant Variances greater than 10% versus Budget
	Actual	Budget	Variance	Variance	
	R	R	R	%	
REVENUE					
Property Rates	12 192 849	16 123 264	(3 930 415)	(32.24)	The increase in the outstanding debt interest relates to the high outstanding debt due to non-payment.
Property Rates - Penalties imposed and collection charges	175 921	90 000	85 921	48.84	
Fines	8 698 596	8 985 130	(286 534)	(3.29)	No material fluctuations.
Licences and Permits	1 086 425	1 032 680	53 745	4.95	No material fluctuations.
Government Grants and Subsidies	41 477 598	44 129 829	(2 652 231)	(6.39)	No material fluctuations.
Service Charges	66 005 131	71 933 468	(5 928 337)	(8.98)	No material fluctuations.
Rental of Facilities and Equipment	565 603	430 351	135 252	23.91	Encroachment was under estimated.
Interest Earned - External investments	903 394	647 300	256 094	28.35	During the year Emthanjeni invest in call accounts for money received but that was not committed within 30 days.
Interest Earned - Outstanding debtors	842 999	666 000	176 999	21.00	The increase in the outstanding debt interest relates to the high outstanding debt due to non-payment.
Dividends Received	540	-	540	100.00	Investment was unknown in the previous years.
Other Income	20 197 863	723 058	19 474 805	96.42	Prepaid sales increase because on conversions from conventional meters to prepaid. The VAT on MIG projects that has been recorded as income.
Other Gains on Continued Operations	467	-	467	100.00	Investment was unknown in the previous years.
Gains on Disposal of Property, Plant and Equipment	16 791	5 000	11 791	70.22	Gains from auction was budgeted for, but auction was not as successful.
Total Revenue	152 164 178	144 766 080	7 398 098	5.11	
EXPENDITURE					
Employee Related Costs	(51 491 497)	(43 316 911)	(8 174 586)	15.88	Interest on the Post Retirement Benefits.
Remuneration of Councillors	(3 223 142)	(3 228 072)	4 930	(0.15)	No material fluctuations.
Collection Costs	-	(167 344)	167 344	(100.00)	No collection services were contracted.
Depreciation	(66 837 113)	(14 343 584)	(52 493 529)	78.54	The over commitment was mainly due to the measurement of PPE.
Impairment Losses	(1 765 894)	(7 313 179)	5 547 285	(314.13)	Increase due to non-payment of debtors accounts. See also the Interest on Outstanding Debtors.
Repairs and Maintenance	(9 714 320)	(15 380 275)	5 665 955	(58.33)	Part of the Ward Projects lead to the extension of the assets and we also receive a lot of rain that stiffed the maintenance of the buildings. Big amounts has been capitalized due to the extension of the useful lives of assets.
Interest Paid	(754 856)	(1 635 476)	880 620	(116.66)	DBSA loan repaid during the year.
Bulk Purchases	(26 379 586)	(27 980 920)	1 601 334	(6.07)	No material fluctuations.
Contracted Services	(8 970 331)	(7 169 100)	(1 801 231)	20.08	TVS commission was under estimated, more revenue was received during the financial year.
Grants and Subsidies Paid	(567 870)	(20 188 376)	19 620 506	(3 455.11)	Difference relates to incorrect classification.
General Expenses	(17 532 266)	(18 600 550)	1 068 284	(6.09)	No material fluctuations.
Inventory Written-off	(605 257)	-	(605 257)	100.00	Write-off of inventory was not budgeted for.
Loss on disposal of Property, Plant and Equipment	(382 404)	-	(382 404)	100.00	Loss on transfer of property was not budgeted for.
Total Expenditure	(188 224 536)	(159 323 787)	(28 900 749)	18.14	
NET SURPLUS / (DEFICIT) FOR THE YEAR	(36 060 359)	(14 557 707)	(21 502 651)	(147.71)	

APPENDIX A
EMTHANJENI LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2011	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2012
ANNUITY LOANS	R				R	R	R	R
DBSA	1 809 999	10.00%	1150 563	2016/03/31	878 449	-	143 438	735 011
DBSA	4 981 693	12.00%	1150 566	2017/03/31	3 236 821	-	396 453	2 840 368
ABSA	9 000 000	9.00%	30 3336 7955	2016/03/31	8 651 230		1 483 029	7 168 201
Total Annuity Loans	15 791 692				12 766 500	-	2 022 920	10 743 580
CAPITAL LEASE LIABILITIES								
Konica Minolta	116 308	6.12%	20161150001	05/04/2006	51 120	-	27 517	23 604
Total Capital Lease Liabilities	116 308				51 120	-	27 517	23 604
TOTAL EXTERNAL LOANS	15 908 000				12 817 620	-	2 050 437	10 767 184

ANNUITY LOANS:

ABSA loan (30 3336 7955):

Structured secured 5 year loan for the purchase of vehicles. Original loan capital of R9 000 000 is repayable monthly in fixed instalments of capital and fixed rate interest of R194 352.

DBSA loan (1150 563):

Structured unsecured 20 year loan for the funding of the De Aar/Nonzwakazi Bulk & Internal Electrical Supply. Original loan capital of R1 809 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest of R111 047.

DBSA loan (1150 566):

Structured unsecured 20 year loan for the funding of the De Aar/Nonzwakazi Bulk & Internal Electrical Supply. Original loan capital of R4 981 693 is repayable semi-annually in fixed instalments of capital and fixed rate interest of R375 077.

APPENDIX A
EMTHANJENI LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012

CAPITAL LEASE LIABILITIES:

Konica Minolta (20161150001):

Lease liability relates to IT Equipment with lease terms of 5 (2010: 5) years. The effective interest rate on finance leases is between 10,00% and 11,00% (2010: 10,00 to 11,00%). The capitalised lease liability is secured by the equipment leased over the lease term.

Note: The rates of interest payable on the above structured loans and finance leases are based on certain underlying assumptions relating to the lenders' statutory costs and the allowability of deductions by the lenders for income tax purposes in connection with these loans. In the event of changes to, or interpretation of, the Income Tax Act or any other relevant legislation which impact on the loan structure costs, the lenders have the right to increase or decrease the future rates of interest payable on the loans over their remaining lives, in order to absorb the increase or decrease in costs.

APPENDIX B
EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

Description	Cost / Revaluation				Accumulated Depreciation / Impairment				Carrying Value			
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions		Transfers	Disposals	Closing Balance
	R	R	R	R	R	R	R	R	R	R	R	
Land and Buildings												
Buildings	257 186 928	59 945	-	-	-	257 246 873	97 252 536	11 163 324	-	-	108 415 860	148 831 013
Land	24 118 435	-	-	-	-	24 118 435	-	-	-	-	-	24 118 435
	281 305 363	59 945	-	-	-	281 365 308	97 252 536	11 163 324	-	-	108 415 860	172 949 448
Infrastructure												
<i>Electricity:</i>												
Electricity Network	216 822 899	171 557	192 930	-	-	217 187 387	114 299 109	8 565 958	-	-	122 865 068	94 322 319
<i>Roads and Transport:</i>												
Roads Network	810 619 437	-	2 223 537	-	-	812 842 974	435 338 777	19 076 079	-	-	454 414 857	368 428 117
<i>Storm Water:</i>												
Storm Water Network	391 957 181	-	8 816 514	-	-	400 773 696	215 576 450	7 837 944	-	-	223 414 394	177 359 302
<i>Solid Waste:</i>												
Landfill Site	2 777 242	-	-	-	-	2 777 242	-	92 575	-	-	92 575	2 684 667
<i>Sewerage:</i>												
Sanitation	102 748 700	100 239	183 100	-	-	103 032 039	52 643 178	3 070 006	-	-	55 713 184	47 318 855
<i>Water:</i>												
Water Network	308 444 208	38 916	1 836 026	-	-	310 319 149	143 619 844	14 354 419	-	-	157 974 264	152 344 886
	1 833 369 667	310 713	13 252 107	-	-	1 846 932 487	961 477 358	52 996 982	-	-	1 014 474 340	832 458 146
Other Assets												
<i>Computer Equipment</i>												
Computer Hardware Including Operating Systems	2 265 985	197 378	-	-	-	2 304 976	759 945	624 004	-	(137 048)	1 246 901	1 058 074
<i>Transport Assets</i>												
Bicycles	2 400	-	-	-	-	2 400	346	288	-	-	634	1 766
Motor Vehicles	2 607 652	595 834	-	-	-	3 203 486	280 203	478 827	-	-	759 030	2 444 456
Trailers And Accessories	222 655	77 035	-	-	-	299 690	38 065	28 041	-	-	66 107	233 583
Trucks	5 049 407	10 899	-	-	-	5 060 306	364 757	484 804	-	-	849 560	4 210 745
<i>Furniture And Office Equipment:</i>												
Advertising Boards	8 149	3 332 999	-	-	-	3 341 148	2 470	224 440	-	-	226 910	3 114 237
Air Conditioners Individual Fixed And Movable	166 309	166 500	-	-	-	328 709	65 774	56 761	-	(3 229)	119 306	209 403
Domestic And Hostel Furniture	59 027	-	-	-	-	59 027	15 918	7 243	-	-	23 161	35 866
Fixtures & Fittings	498 923	-	-	-	-	498 923	131 631	90 627	-	-	222 258	276 666
Office Equipment Including Fax Machines	905 623	9 368	-	-	-	910 853	280 468	156 474	-	(3 725)	433 217	477 636
Office Furniture	3 172 905	199 354	-	-	-	3 351 554	964 313	589 964	-	(12 535)	1 541 742	1 809 812
<i>Machinery And Equipment:</i>												
Audiovisual Equipment	274 470	26 250	-	-	-	284 048	72 486	49 834	-	(7 503)	114 818	169 230
Domestic Equipment (Non Kitchen Appliances)	107 497	14 679	-	-	-	121 236	38 164	30 377	-	(741)	67 800	53 436
Electric Wire And Power Distribution Equipment (Compressors / Generators)	115 796	11 393	-	-	-	127 189	33 890	23 343	-	-	57 232	69 956
Fire Arms	29 440	-	-	-	-	29 440	7 949	5 299	-	-	13 248	16 192
Fire Fighting Equipment	73 065	-	-	-	-	70 215	19 301	21 886	-	(1 773)	39 414	30 801
Gardening Equipment	105 548	40 047	-	-	-	128 095	30 344	30 429	-	(12 600)	48 173	79 922
Kitchen Appliances	140 405	13 663	-	-	-	154 068	47 033	25 544	-	-	72 578	81 490
Laboratory Equipment Agricultural	9 300	-	-	-	-	9 300	1 850	1 674	-	-	3 524	5 777
Laboratory Equipment Medical Testing	5 993	-	-	-	-	5 993	2 485	1 138	-	-	3 623	2 370
Machines For Textile Production	1 393	-	-	-	-	1 393	376	125	-	-	501	892
Medical And Allied Equipment	31 233	-	-	-	-	31 233	6 395	5 622	-	-	12 017	19 216
Meters Prepaid	34 819	-	-	-	-	34 819	7 415	9 416	-	-	16 831	17 988
Music Instruments	130 000	-	-	-	-	130 000	35 100	11 700	-	-	46 800	83 200
Pumps, Plumbing, Purification, Sanitation And Allied Equipment	611 768	2 730	-	-	-	614 498	178 896	109 964	-	-	287 960	326 538
Radio Equipment	50 889	2 279	-	-	-	53 168	15 227	9 804	-	-	25 031	28 137

APPENDIX B
EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

Description	Cost / Revaluation				Accumulated Depreciation / Impairment				Carrying Value			
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions		Transfers	Disposals	Closing Balance
Road Construction And Maintenance Equipment	5 133 907	-	-	-	-	5 133 907	435 579	461 601	-	-	897 180	4 236 726
Security & Access Control Units	87 600	41 579	-	-	-	129 179	3 942	9 963	-	-	13 905	115 274
Telecommunication Equipment	510 615	-	-	-	-	510 615	140 827	153 185	-	-	294 012	216 603
Workshop Equipment And Loose Tools Fixed	96 152	-	-	-	-	96 152	27 189	16 935	-	-	44 124	52 028
Workshop Equipment And Loose Tools Movable	947 639	152 240	-	-	-	1 099 879	281 001	275 045	-	-	556 046	543 833
	23 456 566	4 894 226	-	-	-	28 125 497	4 289 339	3 993 457	-	-	8 103 643	20 021 855
Total	2 138 131 596	5 264 885	13 252 107	-	-	2 156 423 292	1 063 019 233	68 153 763	-	-	1 130 993 843	1 025 429 449

EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2012

Description	Cost / Revaluation				Accumulated Depreciation / Impairment				Carrying Value			
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions		Transfers	Disposals	Closing Balance
Investment Properties	3 440 900	-	-	-	-	3 106 800	-	-	-	-	-	3 106 800
Land	3 440 900	-	-	-	(334 100)	3 106 800	-	-	-	-	-	3 106 800
	3 440 900	-	-	-	(334 100)	3 106 800	-	-	-	-	-	3 106 800

EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2012

Description	Cost / Revaluation				Accumulated Depreciation / Impairment				Carrying Value			
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions		Transfers	Disposals	Closing Balance
Intangible Assets	1 795 143	25 609	-	-	-	1 820 751	184 131	574 275	-	-	758 406	1 062 345
Computer Software	1 795 143	25 609	-	-	-	1 820 751	184 131	574 275	-	-	758 406	1 062 345
	2 143 367 638	5 290 493	13 252 107	-	-	2 161 350 844	1 063 203 364	68 728 039	-	-	1 131 752 249	1 029 598 594

APPENDIX C
EMTHANJENI LOCAL MUNICIPALITY
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

Description	Cost / Revaluation				Accumulated Depreciation / Impairment				Carrying Value	
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals		Closing Balance
	R	R	R	R	R	R	R	R		R
Executive and Council	452 406	451 640	-	-	904 047	117 136	173 829	-	290 965	613 081
Finance and Administration	2 015 913	597 274	-	(39 469)	2 337 357	607 915	522 399	(27 082)	1 085 337	1 470 486
Planning and Development	281 305 363	59 945	-	-	309 381 407	97 252 536	11 163 324	-	120 590 505	172 949 448
Health	148 791	-	-	-	148 791	48 800	27 109	-	75 909	72 882
Community and Social Services	5 024 572	211 237	-	(40 401)	5 195 409	1 260 744	997 133	(24 519)	2 233 358	2 962 051
Housing	12 592 828	3 627 225	-	(15 611)	16 126 691	1 856 902	1 892 869	(25 215)	3 718 471	12 462 386
Public Safety	-	-	-	-	-	-	-	-	-	-
Sport and Recreation	-	-	-	-	-	-	-	-	-	-
Environmental Protection	-	-	-	-	-	-	-	-	-	-
Waste Management	105 525 942	100 239	183 100	-	105 768 681	52 643 178	3 162 581	-	55 805 203	50 003 523
Roads and Transport	395 179 236	6 850	9 571 802	(112 314)	404 645 575	215 966 710	8 225 644	(102 337)	224 090 017	179 800 270
Water	308 444 208	38 916	1 836 026	-	310 280 233	143 619 844	14 354 419	-	157 973 690	152 344 886
Electricity	1 027 442 336	171 557	1 661 179	-	1 035 620 711	549 637 886	27 642 038	-	581 026 551	452 750 435
Other	-	-	-	-	-	-	-	-	-	-
Total	2 138 131 596	5 264 885	13 252 107	(207 795)	2 190 408 902	1 063 011 650	68 161 345	(179 154)	1 146 890 005	1 025 429 449

APPENDIX D

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

2011 Actual Income	2011 Actual Expenditure	2011 Surplus/ (Deficit)	Description	Vote Number	2012 Actual Income	2012 Actual Expenditure	2012 Surplus/ (Deficit)
R	R	R			R	R	R
1 971 758	(17 729 723)	(15 757 965)	Executive and Council		5 566 194	(9 717 798)	(4 151 604)
27 226 031	(18 505 858)	8 720 173	Finance and Administration		30 475 327	(23 668 337)	6 806 990
3 089 951	(8 002 556)	(4 912 606)	Planning and Development		4 034 155	(5 662 115)	(1 627 960)
249 334	(216 569)	32 766	Health		-	(169 232)	(169 232)
671 407	(3 990 336)	(3 318 929)	Community and Social Services		1 440 433	(5 029 292)	(3 588 859)
1 109 127	(4 039 478)	(2 930 351)	Housing		244 006	(4 016 068)	(3 772 062)
9 076 978	(9 016 131)	60 847	Public Safety		7 165 144	(7 829 276)	(664 132)
1 116 758	(1 463 793)	(347 034)	Sport and Recreation		79 423	(33 032 789)	(32 953 366)
-	-	-	Environmental Protection		-	-	-
23 795 472	(11 379 162)	12 416 310	Waste Management		24 722 347	(20 168 901)	4 553 446
17 029 836	(73 874 965)	(56 845 128)	Roads and Transport		618 791	(9 493 300)	(8 874 509)
16 296 925	(5 625 173)	10 671 752	Water		19 008 734	(32 776 305)	(13 767 571)
50 530 600	(32 760 795)	17 769 806	Electricity		56 968 969	(54 151 724)	2 817 245
-	(1 619 998)	(1 619 998)	Other		-	(1 478 531)	(1 478 531)
152 164 178	(188 224 536)	(36 060 358)	Sub-Total		150 323 523	(207 193 669)	(56 870 146)
-	-	-	Revenue Foregone		-	-	-
152 164 178	(188 224 536)	(36 060 358)	Total		150 323 523	(207 193 669)	(56 870 146)

APPENDIX E
EMTHANJENI LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2012

Description	2011/12				2011/12		2011/12		2011/12		Explanation of Significant Variances greater than 5% versus Budget
	Actual	Under Construction	Total Additions	Budget	R	R	Variance	Variance	%		
Executive and Council	451 640	-	451 640	631 000	(179 360)	(28.42)				Underspent in terms of budget.	
Finance and Administration	597 274	-	597 274	2 598 000	(2 000 726)	(77.01)				Underspent in terms of budget.	
Planning and Development	59 945	-	59 945	300 000	(240 055)	(80.02)				Underspent in terms of budget.	
Community and Social Services	211 237	-	211 237	1 000 000	(788 763)	(78.88)				Underspent in terms of budget.	
Housing	3 627 225	-	3 627 225	-	3 627 225	100.00				No budget allocated to Housing.	
Public Safety	-	-	-	150 000	(150 000)	(100.00)				No expenditure incurred.	
Waste Management	100 239	183 100	283 339	6 000 000	(5 716 661)	(95.28)				Allocation - refer to Roads and Transport.	
Roads and Transport	6 850	9 571 802	9 578 652	3 228 000	6 350 652	196.74				Allocation - refer to Waste Management.	
Water	38 916	1 836 026	1 874 942	6 331 000	(4 456 058)	(70.38)				Underspent in terms of budget.	
Electricity	171 557	1 661 179	1 832 737	1 051 000	781 737	74.38				Due to Hospital Electricity Line being build.	
Total	5 264 885	13 252 107	18 516 992	21 289 000	(2 772 008)	(13.02)					

Description	2010/11				2010/11		2010/11		2010/11		Explanation of Significant Variances greater than 5% versus Budget
	Actual	Under Construction	Total Additions	Budget	R	R	Variance	Variance	%		
Executive and Council	2 585	-	2 585	30 000	(27 415)	(91.38)				Capital expenditure has been categorised correctly. See Community and Social Services.	
Finance and Administration	546 277	-	546 277	696 000	(149 723)	(21.51)				More expenditure were allocated against Repair and Maintenance.	
Planning and Development	45 510	-	45 510	16 000	29 510	184.44				All MIG capital Expenditure has realised. See Infrastructure below.	
Health	63 611	-	63 611	18 000	45 611	253.39				See comment of Community and Social Services.	
Community and Social Services	1 370 195	-	1 370 195	-	1 370 195	100.00				Overspending is a result of correct categorisation.	
Housing	1 416 404	-	1 416 404	-	1 416 404	100.00				Electrification of Sub economical houses has been completed. Hence Electricity budget vote was incorrectly allocated.	
Public Safety	-	-	-	250 000	(250 000)	(100.00)				See comment of Other.	
Sport and Recreation	-	-	-	1 324 000	(1 324 000)	(100.00)				See comment of Other.	
Environmental Protection	-	-	-	-	-	100.00				See Planning and Development comment.	
Waste Management	2 616 234	-	2 616 234	2 200 000	(2 200 000)	(100.00)				See Planning and Development comment.	
Roads and Transport	6 334 366	-	6 334 366	2 882 000	(265 766)	(9.22)				Weather conditions lead to the under spending. More Repair and maintenance were performed.	
Water	123 171	-	123 171	7 665 000	(1 330 634)	(17.36)				See Planning and Development comment.	
Electricity	196 983	-	196 983	2 223 000	(2 099 829)	(94.46)				See Planning and Development comment. Existing Prepaid meters were replaced without new connections.	
Other	-	7 940 059	7 940 059	-	196 983	100.00				Lotto funding and other capital expenditure were classified under "Other".	
Infrastructure	-	-	-	-	7 940 059	100.00				See Planning and Development comment.	
Total	12 715 336	7 940 059	20 655 395	17 304 000	3 351 395	19.37					

APPENDIX F
EMTHANJENI LOCAL MUNICIPALITY
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies Delayed / Withheld				Reason for Delay / Withholding of Funds	Compliance to Revenue Act	Reason for Non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June			
Equitable Share	Nat Treasury	12 683 000	10 146 000	7 610 000	-	12 683 000	10 146 000	7 610 000	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
FMG	Nat Treasury	1 450 000	-	-	-	196 868	532 710	324 309	396 113	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Library Grant	Provincial	690 000	-	-	-	690 000	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
MSIG	Nat Treasury	790 000	-	-	-	790 000	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Phandulwazi upgrade	Provincial	-	-	-	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
MIG	Nat Treasury	5 500 000	5 000 000	-	2 806 000	67 300	2 752 424	3 058 741	4 488 705	N/A	N/A	N/A	N/A	N/A	Yes	N/A
DME	Provincial	260 000	-	-	-	260 000	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Housing Projects	Provincial	-	-	-	-	20 000	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Eradication Housing	Provincial	-	-	-	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Hydrophonic Houses	Provincial	-	-	-	-	-	-	128 600	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Fire Fighting Equipment	Provincial	-	-	-	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Hospital Electricity Line	Provincial	5 429 737	-	1 760 000	-	-	-	-	192 930	N/A	N/A	N/A	N/A	N/A	Yes	N/A
DWARF	Provincial	-	-	141 410	-	-	-	141 410	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Water Affairs (EU)	Provincial	-	-	-	330 736	-	-	-	330 736	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Housing Accreditation	Provincial	-	-	-	218 056	-	-	-	218 056	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Water Affairs (ACIP)	Provincial	-	-	-	281 272	-	-	-	281 272	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Total Grants and Subsidies Received		26 802 737	15 146 000	9 511 410	3 636 064	14 707 168	13 431 134	11 263 060	5 907 812							



ANNEXURE B: REPORT OF THE AUDITOR GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE EMTHANJENI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Emthanjani Local Municipality as set out on pages 9 to 122, which comprise the appropriation statement, the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.



Basis for qualified opinion

Aggregation of immaterial uncorrected misstatements

6. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:
- Accumulated surplus reflected as R875 152 435 is understated by R1 739 590.
 - Revenue reflected as R150 323 523 is overstated by R1 679 839.
 - Expenditure reflected as R207 193 669 (inclusive of employee related costs) is overstated by R 652 300.
 - Creditors from exchange transactions reflected as R12 003 563 is overstated by R539 701.
 - Receivables from exchange transactions reflected as R46 227 048 is understated by R248 966.

Opinion

7. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Emthanjeni Local Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP the applicable financial reporting framework and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Significant uncertainties

9. With reference to note 57.2 to the financial statements, the municipality has two active landfill sites which are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). The municipality has taken steps to obtain the required licences. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

10. 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.

Material losses and impairments

11. 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.
12. As disclosed in note 3 to the financial statements, a significant provision for the impairment of trade receivables from exchange transactions was created which constitutes 41% of the total trade and other receivables from exchange transactions balance.



13. As disclosed in note 4 to the financial statements, a significant provision for the impairment of trade receivables from non-exchange transactions was created which constitutes 23% of the total trade and other receivables from non-exchange transactions balance.

Unauthorised, fruitless and wasteful and irregular expenditure

14. As disclosed in note 51.3 to the financial statements, the municipality incurred irregular expenditure of R16 257 924.

Other matters

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

Material inconsistencies in other information included in the annual report

16. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

17. The supplementary information set out on pages 113 to 122, appendices A to F, does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

18. In accordance with the PAA and the *General Notice* issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 46 to 77 of the annual report.
20. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives/ development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable i.e. well defined, verifiable, specific, measurable and time bound and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected programmes/ objectives/ development priorities or objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings are as follows:



Reliability of selected development priorities/objectives in the annual performance report

Validity, accuracy and completeness

Reported performance not valid, accurate or complete

21. The National Treasury Framework for managing programme performance information (FMPPPI) requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 91% of the Basic Service Delivery, Provision of Infrastructure and Environmental Management development priorities/objectives. This was due to limitations placed on the scope of my work due to inadequate standard operating procedures to measure and record actual performance during the period.

Additional matters

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

Achievement of planned targets

23. 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.

Compliance with laws and regulations

24. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of capital assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an except for opinion.

AUDIT COMMITTEE

26. The audit committee did not adequately advise the council and accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the Municipal Finance and Management Act.



27. The audit committee did not adequately advise the council and accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the Municipal Finance and Management Act.
28. The audit committee did not adequately advise the council and accounting officer on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(a)(vii) of the Municipal Finance and Management Act.
29. 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 of the entity, 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 Municipal Finance and Management Act.
30. 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 Municipal Finance and Management Act.
31. A performance audit committee was not in place and the audit committee established in terms of MFMA section 166(1) was not used for this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).

INTERNAL AUDIT

32. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that the internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to procedures and practices and risk and risk management.
33. The internal audit unit did not report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b) of the Municipal Finance Management Act.
34. 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).
35. The internal audit unit 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).
36. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

PROCUREMENT AND CONTRACT MANAGEMENT

37. 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).
38. 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).



39. 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.

Human resource management and compensation

40. 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.
41. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) Municipal Systems Act.
42. 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).

EXPENDITURE MANAGEMENT

43. 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.
44. 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.

CONDITIONAL GRANTS RECEIVED

45. 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.
46. 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.
47. 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.
48. 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.

REVENUE MANAGEMENT

49. Interest was not charged on all arrears accounts as required by section 64(2)(g) of the Municipal Finance Management Act.

ASSET MANAGEMENT

50. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.

Internal control

51. 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.

Leadership

52. 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.
53. 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.
54. 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.
55. The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls for leave management.
56. Does not establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

57. The financial statements were not sufficiently reviewed for completeness and accuracy prior to submission for auditing.
58. 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.
59. 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.
60. 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.
61. The Municipality has not implemented controls in the SCM unit to review and monitor compliance with applicable laws and regulations.



Governance

- 62. Does not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.
- 63. 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.



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ANNEXURE C: REPORT OF THE PERFORMANCE AUDIT COMMITTEE

Purpose: The purpose of the Audit Action Plan is to identify the qualification and to rectify or remedy the weakness before the next audit

Audit Paragr No.	Item	Impact on Audit Report	Target Action Date	Responsible Official	Responsible Director	Department within the Municipality	Remarks
AUDIT QUALIFICATIONS AFFECTING THE AUDIT REPORT 30 JUNE 2012							
16	Aggregation of immaterial uncorrected misstatements						
*	Accumulated Surplus	Qualification	31/01/2013	MFS	CFO	FINANCE	The matter will be investigated and corrections will be made on the FMS system and AFS
*	Revenue	Qualification	31/03/2013	MFS	CFO	FINANCE	The matter will be investigated and corrections will be made on the FMS system and AFS
*	Expenditure	Qualification	31/03/2013	MFS	CFO	FINANCE	The matter will be investigated and corrections will be made on the FMS system and AFS
*	Creditors	Qualification	31/03/2013	MFS	CFO	FINANCE	The matter will be investigated and corrections will be made on the FMS system and AFS
*	Receivables	Qualification	31/12/2013	MFS	CFO	FINANCE	The matter will be investigated and corrections will be made on the FMS system and AFS
EMPHASIS OF MATTERS IDENTIFIED IN THE AUDIT REPORT 30 JUNE 2012							
210	Restatement of corresponding figures	EOM	30/06/2013		CFO	FINANCE	During the preparations of the AFS of 2013, it would be rectified.
311	Material losses and impairments : 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. 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.	EOM	30/06/2013	DIHS	DIHS	INFRASTRUCTURE & HOUSING SERVICES	Noted
412	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.	EOM	30/06/2013	CFO	CFO	FINANCE	DIHS will investigate the matter and will developed an programme of action to reduced the system losses
513	As disclosed in note 51.3 to the financial statements, the municipality incurred irregular expenditure of R16 257 924.	EOM	30/06/2013	CFO	CFO	FINANCE	SCM Regulations will be followed to ensure that Irregular Expenditure is minimise
722	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.	EOM	30/06/2013	DIHS	DIHS	INFRASTRUCTURE & HOUSING SERVICES	The PMS targets will be investigated and amendments to the Top Layer PMS targets will be corrected
823	Planned targets not met	EOM	30/06/2013	MM	MM	OFFICE OF MM	See comments below
926	The audit committee did not adequately advise the accounting officer on matter relating to internal audit financial control, risk management, accounting policies, performance management and performance evaluation as required by section 166 (2)(A) the MFMA	EOM	31/06/2013	INTERNAL AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed
1027	The audit committee did not adequately advise the accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA	EOM	31/06/2013	INTERNAL AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed
1128	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)	EOM	31/06/2013	INTERNAL AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed

Audit Action Plan - 2011/2012

Prepared by: CHIEF FINANCIAL OFFICER

Date: 13 DECEMBER 2012

Purpose: The purpose of the Audit Action Plan is to identify the qualification and to rectify or remedy the weakness before the next audit

Audit Paragr No.	Item	Impact on Audit Report	Target Action Date	Responsible Official	Responsible Director	Department within the Municipality	Remarks
<u>12</u> 29	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	EOM	31/06/2013	INTERNAL-AUDIT UNIT	MM	OFFICE OF MM	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.
<u>13</u> 30	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	EOM	31/06/2013	INTERNAL-AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed
<u>14</u> 31	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)	EOM	31/06/2013	INTERNAL-AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed
<u>15</u> 32	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	EOM	31/06/2013	INTERNAL-AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed
<u>16</u> 33	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	EOM	31/06/2013	INTERNAL-AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed
<u>17</u> 34	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)	EOM	31/06/2013	INTERNAL-AUDIT UNIT	MM	OFFICE OF MM	Training on The auditing of Performance Information has been identified as a need and training will be arranged for the Internal audit unit.
<u>18</u> 35	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)	EOM	31/06/2013	INTERNAL-AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed
<u>19</u> 36	The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c)	EOM	31/06/2013	INTERNAL-AUDIT UNIT	MM	OFFICE OF MM	An effective communication between the Council and Audit Committee will be development and executed
<u>20</u> 37	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).	EOM	Immediately	CFO	CFO	FINANCE	SCM Regulations will be adhere to as far as possible
<u>21</u> 38	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).	EOM	Immediately	CFO	CFO	FINANCE	SCM Regulations will be adhere to as far as possible
<u>22</u> 39	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.	EOM	Immediately	DIHS	DIHS	INFRASTRUCTURE & HOUSING SERVICES	All projects will be registered with CIDB immediately
<u>23</u> 40	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.	EOM	Immediately	DCCDS	DCCDS	CORPORATE, COMMUNITY & DEVELOPMENT SERVICES	All appointments will be made in accordance with the approved organigram
<u>24</u> 41	The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) Municipal Systems Act.	EOM	Immediately	DCCDS	DCCS	CORPORATE, COMMUNITY & DEVELOPMENT SERVICES	PMS agreements will be signed within the required timeframes

Audit Action Plan - 2011/2012

Prepared by: CHIEF FINANCIAL OFFICER

Date: 13 DECEMBER 2012

Purpose: The purpose of the Audit Action Plan is to identify the qualification and to rectify or remedy the weakness before the next audit

Audit Paragr No.	Item	Impact on Audit Report	Target Action Date	Responsible Official	Responsible Director	Department within the Municipality	Remarks
<u>25</u> 42	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).	EOM	31/03/2013	DCCDS	DCCDS	CORPORATE, COMMUNITY & DEVELOPMENT SERVICES	PMS agreements will be amended to include to Minimum Competency Levels,
<u>26</u> 43	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.	EOM	Immediately	CFO	CFO	FINANCE	Section 65(2)(e) of the MFMA will be adhere too
<u>27</u> 44	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.	EOM	Continuous	CFO	CFO	FINANCE	SCM Regulations will be adhere to as far as possible
<u>28</u> 45	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.	EOM	Continuous	DIHS	DIHS	INFRASTRUCTURE & HOUSING SERVICES	The municipality will strive to comply with the DORGF by submitting the performance framework before the due date.
<u>29</u> 46	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.	EOM	Ongoing	CFO & DIHS	CFO & DIHS	INFRASTRUCTURE & HOUSING SERVICES	Spending patterns will be improve to avoid unspent conditional grants being repaid to National Treasury
<u>30</u> 47	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.	EOM	Ongoing	DIHS	DIHS	INFRASTRUCTURE & HOUSING SERVICES	The municipality will strive to comply with the DORGF by submitting the performance framework before the due date.
<u>31</u> 48	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.	EOM	Ongoing	DIHS	DIHS	INFRASTRUCTURE & HOUSING SERVICES	The municipality will strive to comply with the DORGF by submitting the performance framework before the due date.
<u>32</u> 49	Interest was not charged on all arrears accounts as required by section 64(2)(g) of the Municipal Finance Management Act.	EOM	31/05/2013	CFO	CFO	FINANCE	The Credit Control policy will be re-assess and be amended where possible.
<u>33</u> 50	An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.	EOM	Continuous	CFO	CFO	FINANCE	A system will be developed that will ensure that all assets are accounted for and that officials are held responsible for the assets under their control.
<u>34</u> 51	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.	EOM	Ongoing	CFO	CFO	FINANCE	See comments below
LEADERSHIP							
<u>35</u> 52	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.	LEADERSHIP	Ongoing	MM	MM	OFFICE OF MM	Policies will be developed and implemented

Audit Action Plan - 2011/2012
Prepared by: CHIEF FINANCIAL OFFICER
Date: 13 DECEMBER 2012

Purpose: The purpose of the Audit Action Plan is to identify the qualification and to rectify or remedy the weakness before the next audit

Audit Paragr No.	Item	Impact on Audit Report	Target Action Date	Responsible Official	Responsible Director	Department within the Municipality	Remarks
<u>36</u> 53	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.	LEADERSHIP	Ongoing	CFO	CFO	FINANCE	Will ensure that this be a standing item on management meeting's agenda.
<u>37</u> 54	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	LEADERSHIP	Ongoing	MM	MM	OFFICE OF MM	An effective communication strategy will be developed to communicate all policies and procedures in HR Management to the general staff on a regular basis
<u>38</u> 55	The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls for leave management	LEADERSHIP	Ongoing	MM	MM	OFFICE OF MM	Will ensure that this be a standing item on management meeting's agenda.
<u>39</u> 56	Does not establish an IT governance framework that supports and enables the business, delivers value and improves performance.	LEADERSHIP	Ongoing	MM	MM	OFFICE OF MM	Will ensure that this be a standing item on management meeting's agenda.
	FINANCIAL AND PERFORMANCE MANAGEMENT						
<u>40</u> 57	The financial statements were not sufficiently reviewed for completeness and accuracy prior to submission for auditing.	F & PM	Ongoing	CFO	CFO	FINANCE	Staff will be capacitated to ensure that the AFS is being reviewed before the submission for auditing.
<u>41</u> 58	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.	F & PM	Ongoing	CFO	CFO	FINANCE	Internal Controls will be re-visited, sharpen and communicated to all staff in order to address the weaknesses identified in the systems
<u>42</u> 59	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.	F & PM	Ongoing	CFO	CFO	FINANCE	Staff will be capacitated during the current financial year with relevant training programmes offered by IMFO, National Treasury, COGSTHA, etc.
<u>43</u> 60	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.	F & PM	Ongoing	CFO	CFO	FINANCE	Internal Controls will be re-visited, sharpen and communicated to all staff in order to address the weaknesses identified in the systems
<u>44</u> 61	The Municipality has not implemented controls in the SCM unit to review and monitor compliance with applicable laws and regulations.	F & PM	Ongoing	CFO	CFO	FINANCE	Internal Controls will be re-visited, sharpen and communicated to all staff in order to address the weaknesses identified in the systems
	GOVERNANCE						
<u>45</u> 62	Does not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.	GOVERNANCE	Ongoing	MM	MM	OFFICE OF MM	More interaction between the Internal Audit Unit and Management will be established during the financial year
<u>46</u> 63	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.	GOVERNANCE	Ongoing	MM	MM	OFFICE OF MM	The areas of risk will be addressed during the financial year