



Ngwathe Local Municipality  
 Annual Financial Statements  
 for the year ended 30 June 2010

CAST AND TRANSFERRED


DONE BY: AS

DATE: 15 November 2010

The Office of the Auditor-General: Free State Registered Auditors  
 Issued 31 August 2010

TICK LEGEND

- A - cast
- c/c - cross cast
- PH - agreed to prior year F/S
- OK - information correct
- Ⓢ - recalculated
- T -

  
 AUDITOR GENERAL  
 P.O. BOX 315  
 2010-11-19  
 BLOEMFONTEIN, 9300  
 AUDITOR GENERAL

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## General Information

<b>Legal form of entity</b>	An organ of state within the local sphere of government exercising legislative and executive authority.
<b>Nature of business and principal activities</b>	Provide municipal services and maintain the best interest of the local community, mainly in the Ngwathe Municipal Area.
<b>Mayoral committee</b>	
Mayor	<input checked="" type="checkbox"/> MP Moshodi G Nketu ME Magashule TJ Vandisi AM Olifant GP Mandelstam M Serathi NMN Khumalo HS Hlatswayo DS Lehman ML Sephiri TN Makhobotloane SM Vermaak PP van der Merwe RA Majoe M Schoonwinkel SLS Sekete AC Nteo B Sothoane P Ndayi MN Phathi DB Nel AJ Rantsieng PL Moeketsi LD Jaers EC Sothoane J de Jager L Mvulane NP Mopeli ME Direko M Mbele S Choni AL Kgotlagomang NA Ndlovu D Hansa NJ Hlungu M Maine SH Marumo
<b>Councillors</b>	
<b>Grading of local authority</b>	Grade 3
<b>Chief Finance Officer (CFO)</b>	N Molikoe (Acting CFO)
<b>Accounting Officer</b>	NN Selai (Acting Municipal Manager)

- Agreed to list of councillors

N<sub>1</sub> - The initials of these persons do not agree with the list of councillors

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010:

## General Information

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<b>Registered office</b>	Liebenbergstrek, Parys
<b>Business address</b>	Liebenbergstrek, Parys
<b>Postal address</b>	PO Box 359 Parys 9585
<b>Auditors</b>	The Office of the Auditor-General: Free State Registered Auditors

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	5
Accounting Officer's Report	6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash flow statement	10
Accounting Policies	11 - 26
Notes to the Annual Financial Statements	27 - 39

### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the Ngwathe Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Ngwathe Local municipality are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

7 to 39

The annual financial statements set out on pages 6 to 39, which have been prepared on the going concern basis, were approved by the Accounting officer on 31 August 2010 and were signed on its behalf by:



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Accounting Officer

**Ngwathe Local Municipality**

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

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# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	5 K.I	835,912	818,169
Investments	3 T	573,907	489,699
SARS - VAT Receivable <i>Does not transfer (Note: Current tax receivable)</i>	12 V.I.1	13,598,344	22,567,780
Trade and other receivables from exchange transactions	6 L.1	32,449,930	27,635,060
Consumer receivables from exchange transactions <i>Does not transfer (Note: Consumer debtors)</i>	7 L.I.1	39,186,493	104,669,903
Other non-current receivables	4 T	9,848	9,848
Cash and cash equivalents	8 O.I.1	2,353,309	1,103,323
		<b>89,007,743</b>	<b>157,293,782</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	2 G.I	580,878,678	553,366,069
Investments	3 T	7,380,077	6,422,542
Long-term Loans	4 T	31,369	31,369
		<b>588,290,124</b>	<b>559,819,980</b>
<b>Total Assets</b>		<b>677,297,867</b>	<b>717,113,762</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Non-current borrowings <i>Does not transfer (Note: Finance lease obligation)</i>	9 T	1,439,913	1,996,827
Finance lease obligation	10 T		569,573
Trade and other payables from exchange transactions	V.I.1	73,365,629	105,060,786
Consumer deposits	13 V.2.1	3,491,922	3,392,468
Unspent conditional grants and receipts	11 Q.I.1	18,174,724	3,937,863
Bank overdraft	8 O.I.1	26,064,617	-
		<b>123,315,183</b>	<b>114,957,517</b>
<b>Non-Current Liabilities</b>			
Non-current borrowings <i>Does not transfer (Note: Finance lease obligation)</i>	9 T	24,368,246	22,680,523
Finance lease obligation	10 T		1,268,683
		<b>24,368,246</b>	<b>23,949,206</b>
<b>Total Liabilities</b>		<b>148,053,673</b>	<b>138,906,723</b>
<b>Net Assets</b>		<b>529,244,194</b>	<b>578,207,039</b>
<b>Net Assets</b>			
Reserves			
Capitalisation reserve	P.I.1	42,886	42,886
Insurance reserve		33,348	16,674
Accumulated surplus		529,167,958	578,147,479
<b>Total Net Assets</b>		<b>529,244,192</b>	<b>578,207,039</b>

Σ = 25 808 159 Q.I.1

Σ = 7 953 984 J.I.1

Σ = 41 217 L.1

Σ = 1 148 622 R.I.1

Σ = 59 560 P.I.1

**Ngwathe Local Municipality**  
 (Registration number FS203)  
 Annual Financial Statements for the year ended 30 June 2010

**Statement of Financial Performance**

Figures in Rand	Note(s)	2010	2009
<b>Revenue</b>			
Property rates †	15 † XA.1.1	48,341,497 †	33,412,364 †
Service charges †	16 †	126,747,917 †	116,399,462 †
Rental of facilities and equipment		1,030,220	307,904
Fines	XA.1.1	608,940	615,101
Government grants & subsidies †	17 †	159,074,015 †	151,694,679 †
Other income †	18 † XA.1.1	3,750,438 †	5,199,559 †
Interest earned	1	14,013,433	11,414,774
<b>Total Revenue</b>		<b>353,566,460</b>	<b>319,043,843</b>
<b>Expenditure</b>			
Personnel <i>Does not transfer (Nick-Employee related costs)</i>	20 †	(93,833,496) †	(81,464,124) †
Remuneration of councillors †	21 †	(7,763,861) †	(7,958,297) †
Depreciation and amortisation †	23 † XB.1.1.5	(30,867,988) †	(2,811,936) †
Finance costs †	24 † XB.1.1.4	(3,336,907) †	(4,725,212) †
Debt impairment †	22 † 1	(132,659,767) †	(5,633,832) †
Collection costs	XB.1.1	(449,964)	(742,866)
Repairs and maintenance		<b>(15,042,897)</b>	(10,108,558)
Bulk purchases †	27 † XB.1.1	(34,112,662) †	(45,681,554) †
Contracted services †	26 †	(4,337,265) †	(3,309,111) †
General Expenses †	19 †	(73,256,527) †	(72,157,181) †
<b>Total Expenditure</b>		<b>(395,661,334)</b>	<b>(234,592,671)</b>
Loss on disposal of assets and liabilities		-	(1,080,624)
<b>(Deficit) surplus for the year</b>		<b>(42,094,874)</b>	<b>83,370,548</b>

$$1\ 030\ 220 - 103\ 050 = 830 @$$

	AFS	TB	
Repairs + Maintenance	(15 042 897)	(14 347 379)	XB.1.1.2
Other expenses F3/35/A	(74 496)	(170 843)	XB.1.1.5
	<u>(15 117 393)</u>	<u>(15 118 222)</u>	Difference = 829 @

*(Handwritten signatures and marks)*



# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Statement of Changes in Net Assets

Figures in Rand	Capitalisation reserve	Other reserves	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	-	451,282,710	451,282,710	(55,066,167)	396,216,543
Adjustments					
Movement for the year	-	78,060,868	78,060,868	-	78,060,868
Change in accounting policy	-	(529,343,578)	(529,343,578)	529,343,578	-
Prior year adjustments	-	-	-	475,142	475,142
<b>Balance at 01 July 2008 as restated</b>	-	-	-	<b>474,752,553</b>	<b>474,752,553</b>
Changes in net assets					
Appropriations for the year	-	-	-	20,083,938	20,083,938
Net income (losses) recognised directly in net assets	-	-	-	20,083,938	20,083,938
Surplus for the year	-	-	-	<b>83,370,548</b>	83,370,548
Total recognised income and expenses for the year	-	-	-	103,454,486	103,454,486
Capital Reserve	42,886	-	42,886	(42,886)	-
Other Reserves	-	16,674	16,674	(16,674)	-
Total changes	42,886	16,674	59,560	103,394,926	103,454,486
<b>Balance at 01 July 2009</b>	<b>42,886</b>	<b>16,674</b>	<b>59,560</b>	<b>578,147,477*</b>	<b>578,207,037*</b>
Changes in net assets					
Appropriations for the year	-	-	-	(6,884,645)	(6,884,645)
Net income (losses) recognised directly in net assets	-	-	-	(6,884,645)	(6,884,645)
Deficit for the year	-	-	-	(42,094,874)	(42,094,874)
Total recognised income and expenses for the year	-	-	-	(48,979,519)	(48,979,519)
Capital Reserve	-	16,674	16,674	-	16,674
Total changes	-	16,674	16,674	(48,979,519)	(48,962,845)
<b>Balance at 30 June</b>	<b>42,886</b>	<b>33,348</b>	<b>76,234</b>	<b>529,167,958</b>	<b>529,244,192</b>
Note(s)	P1.1	P1.1			P1.1

$$\Sigma = 59\,560\,114$$

\* Does not cast - R2 difference

$$\Sigma = 54\,591\,025$$

- Do not agree to prior year due to changes made to opening balances: Refer P50

**Ngwathe Local Municipality**  
 (Registration number FS203)  
 Annual Financial Statements for the year ended 30 June 2010

**Cash flow statement**

Figures in Rand	Note(s)	2010	2009
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		92,975,274	124,185,849
Grants		159,074,015	80,077,377
Interest income		14,013,433	11,414,774
Other receipts		-	4,349,956
		<u>266,062,722</u>	<u>220,027,956</u>
<b>Payments</b>			
Employee costs		(101,597,358)	(86,949,398)
Suppliers		(123,141,674)	(67,540,609)
Finance costs		(3,820,250)	(4,005,793)
		<u>(228,559,282)</u>	<u>(158,495,800)</u>
<b>Net cash flows from operating activities</b>	Does not transfer (Note: Cash generated from operations) 28 T	<b>37,503,440</b>	<b>61,532,156</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2 T	(58,380,597)	(81,397,070)
Proceeds from sale of financial assets		(1,041,743)	1,558,895
Finance costs		(3,336,907)	-
		<u>(62,759,247)</u>	<u>(79,838,175)</u>
<b>Net cash flows from investing activities</b>			
<b>Cash flows from financing activities</b>			
Repayment of non-current borrowings		1,130,809	25,971,847
Movement in other non-current liabilities		-	262,544
Finance lease payments		(689,634)	-
		<u>441,175</u>	<u>24,939,894</u>
<b>Net cash flows from financing activities</b>		<b>441,175</b>	<b>24,939,894</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		(24,814,632)	6,633,875
Cash and cash equivalents at the end of the year		1,103,323	9,520,260
		<u>(23,711,309)</u>	<u>8,103,323</u>

N4 (\*) does not cast, therefore this is incorrect.

A - B does not agree to C.

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

### 1. Presentation of Annual Financial Statements for the year ended 30 June 2010

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

#### Transitional provision

The municipality changed its accounting policy for investment property in 2009. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. The municipality has not yet recognised Investment property. The transitional provision expires on 30 June 2011.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

### 1.1 Investment property (continued)

associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

### 1.2 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except which carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.



**Ngwathe Local Municipality**  
(Registration number FS203)  
Annual Financial Statements for the year ended 30 June 2010

**Accounting Policies**

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**1.2 Property, plant and equipment (continued)**

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

**Transitional provision**

The municipality changed its accounting policy for property, plant and equipment in 2009. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 2. The transitional provision expires on 30 June 2011.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 2.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

**Ngwathe Local Municipality**  
(Registration number FS203)  
Annual Financial Statements for the year ended 30 June 2010

**Accounting Policies**

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**1.3 Intangible assets**

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

**Transitional provision**

The municipality changed its accounting policy for intangible assets in 2009. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. The municipality has not yet recognised Intangible Assets. The transitional provision expires on 30 June 2011.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.3 Intangible assets (continued)

- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

### 1.4 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

#### Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.4 Financial instruments (continued)

impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

#### Fair value determination

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

#### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Financial instruments designated as at fair value through surplus or deficit

Financial assets that meet either of the following conditions:

- are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Financial instruments designated as available for sale.

#### Financial instruments designated as available-for-sale

Financial assets that are designated as available-for-sale are not classified as:



# Ngwathe Local Municipality

(Registration number FS203)  
Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.4 Financial instruments (continued)

- Loans and Receivables ;
- Held-to-Maturity Investments; or
- Financial assets at fair value through the Statement of Financial Performance.

#### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

#### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

### 1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.5 Leases (continued)

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### Transitional provision

The municipality changed its accounting policy for inventories in 2009. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 5. The transitional provision expires on 30 June 2011.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2009 and inventories has accordingly been recognised at provisional amounts, as disclosed in 5.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Inventory, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),

# Ngwathe Local Municipality

(Registration number FS203)  
Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.6 Inventories (continued)

- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

### 1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### Value in use

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

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

### Basis for estimates of future cash flows

In measuring value in use the municipality:

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

### 1.7 Impairment of cash-generating assets (continued)

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

### 1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.9 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.9 Employee benefits (continued)

subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

### 1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.10 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

### 1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### 1.12 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

#### Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.12 Revenue from non-exchange transactions (continued)

- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imburement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.13 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### 1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.



# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### 1.20 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.20 Use of estimates (continued)

statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.21 Presentation of currency

These annual financial statements are presented in South African Rand.

### 1.22 Offsetting

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

### 1.23 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.25 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

2010

2009

### 2. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	11,764,320	-	11,764,320	11,764,320	-	11,764,320
Buildings	28,454,936	(858,790)	27,596,146	28,454,936	-	28,454,936
Infrastructure	498,207,556	(25,501,113)	472,706,443	441,439,237	(1,815,529)	439,623,708
Community	40,081,851	(1,825,241)	38,256,610	39,891,351	(483,421)	39,407,930
Other property, plant and equipment	33,706,433	(5,494,780)	28,211,653	32,284,655	(512,986)	31,771,669
Other leased Assets	2,343,506	-	2,343,506	2,343,506	-	2,343,506
<b>Total</b>	<b>614,558,602</b>	<b>(33,679,924)</b>	<b>580,878,678</b>	<b>556,178,005</b>	<b>(2,811,936)</b>	<b>553,366,069</b>
	GI.1	GI.1	GI.1			

#### Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Land	11,764,320	-	-	11,764,320
Buildings	28,454,936	-	(858,790)	27,596,146
Infrastructure	439,623,708	56,768,319	(23,685,584)	472,706,443
Community	39,407,930	190,500	(1,341,820)	38,256,610
Other property, plant and equipment	31,771,669	1,421,778	(4,981,794)	28,211,653
Other leased Assets	2,343,506	-	-	2,343,506
<b>Total</b>	<b>553,366,069</b>	<b>58,380,597</b>	<b>(30,867,988)</b>	<b>580,878,678</b>
		GI.2	GI.1	

#### Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Disposals	Depreciation	Total
Land	11,764,320	-	-	-	11,764,320
Buildings	27,929,936	525,000	-	-	28,454,936
Infrastructure	391,220,134	50,219,103	-	(1,815,529)	439,623,708
Community	16,065,294	23,826,057	-	(483,421)	39,407,930
Other property, plant and equipment	29,063,824	4,633,405	(1,412,574)	(512,986)	31,771,669
Other leased Assets	2,343,506	-	-	-	2,343,506
<b>Total</b>	<b>478,387,014</b>	<b>79,203,565</b>	<b>(1,412,574)</b>	<b>(2,811,936)</b>	<b>553,366,069</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 3. Investments

#### Available-for-sale

Listed shares	152,751	115,465
Sanlam shares		
Unlisted shares	421,156	374,234
Momentum policy		
<b>Total</b>	<b>573,907</b>	<b>489,699</b>

#### Held to maturity

Held-to-maturity investments	7,380,077	6,422,542
<b>Total other financial assets</b>	<b>7,953,984</b>	<b>6,912,241</b>

# Ngwathe Local Municipality

(Registration number FS203)  
Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>3. Investments (continued)</b>		
<b>Non-current assets</b>		
Held to maturity	7,380,077	6,422,542
<b>Current assets</b>		
Available-for-sale	573,907	489,699
	<b>7,953,984</b>	<b>6,912,241</b>

Included  
twice  
Refer  
page

Included in Held to maturity investments are investments which have been pledged as guarantees for long term liabilities as follows:

An investment of R 6 956 918 serves as guarantee for INCA loan no.: PARY-00-0001-417.

FNB investment no. 71038146801 amounting to R 33 261 serves as guarantee for BJ Monyamara.

FNB investment no. 71037431386 amounting to R 12 750 serves as guarantee for Saambou.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2010 and 2009, as all the financial assets were disposed of at their redemption date.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

### 4. Long-term Loans

Σ = 41 217 k2.1

Other long-term receivables	31,369	31,369	117
Short term portion of long-term receivables	9,848	9,848	117

### 5. Inventories

Stores, materials and fuels	835,912	818,169	117
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### 6. Trade and other receivables from exchange transactions

Sundry Debtors	28,648,234	27,635,060
Salary debtors	3,801,696	-
	<b>32,449,930</b>	<b>27,635,060</b>

### 7. Consumer debtors (Does not transfer. Note: Consumer receivables from exchange transactions).

<b>Gross balances</b>		
Rates	49,687,481	35,335,198
Electricity	30,579,627	27,231,834
Water	55,326,443	34,790,508
Sewerage	28,014,973	18,201,724
Refuse	26,621,844	18,053,035
Sundry debtors	26,576,487	16,333,024
	<b>216,806,855</b>	<b>149,945,323</b>

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>7. Consumer debtors (continued)</b>		
<b>Less: Provision for debt impairment</b>		
Rates	(42,249,438)	(17,535,804)
Electricity	(26,001,963)	(3,661,022)
Water	(47,044,267)	(6,086,441)
Sewerage	(23,821,229)	(9,032,973)
Refuse	(22,636,647)	(8,959,182)
Sundry debtors	(15,866,819)	-
	<b>L.I. (177,620,363)</b>	<b>(45,275,422)</b>
<b>Net balance</b>		
Rates	7,438,043	17,799,393
Electricity	4,577,664	23,570,812
Water	8,282,176	28,704,067
Sewerage	4,193,744	9,168,752
Refuse	3,985,198	9,093,855
Sundry debtors	10,709,668	16,333,024
	<b>L.I. 39,186,493</b>	<b>110,669,903</b>
<b>Rates</b>		
Current (0 -30 days)	3,499,844	2,382,021
31 - 60 days	1,306,584	1,550,290
61 - 90 days	1,076,505	1,333,906
91 - 120 days	30,062,103	46,402,005
	<b>35,945,036</b>	<b>51,668,222</b>
<b>Electricity</b>		
Current (0 -30 days)	4,125,412	4,323,488
31 - 60 days	2,797,994	2,323,421
61 - 90 days	1,258,656	4,592,980
91 - 120 days	22,832,092	15,991,945
	<b>31,014,154</b>	<b>27,231,834</b>
<b>Water</b>		
Current (0 -30 days)	3,064,208	9,887,543
31 - 60 days	2,462,247	2,782,562
61 - 90 days	2,307,819	2,837,184
91 - 120 days	51,813,845	19,283,219
	<b>59,648,119</b>	<b>34,790,508</b>
<b>Sewerage</b>		
Current (0 -30 days)	2,402,945	2,120,611
31 - 60 days	1,576,763	1,203,063
61 - 90 days	1,457,295	1,048,204
91 - 120 days	25,337,757	13,829,846
	<b>30,774,760</b>	<b>18,201,724</b>
<b>Refuse</b>		
Current (0 -30 days)	1,761,768	1,675,215
31 - 60 days	1,348,943	1,240,460
61 - 90 days	1,254,089	1,097,993
91 - 120 days	26,946,106	14,039,367
	<b>31,310,906</b>	<b>18,053,035</b>

N<sub>2</sub> - R<sub>1</sub> Difference  
 N<sub>3</sub> - R<sub>2</sub> Difference

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand 2010 2009

### 7. Consumer debtors (continued)

#### Sundry debtors

Current (0 -30 days)	2,670,087	1,232,755
31 - 60 days	1,375,875	1,015,370
61 - 90 days	1,183,159	1,056,646
91 - 120 days	1,173,065	51,026,503
121 - 365 days	27,134,819	-
	<b>33,537,005</b>	<b>54,331,274</b>

### Reconciliation of provision for impairment of consumer debtors

Opening balance	(45,275,422)	(83,716,261)
Provision for impairment	(132,344,940)	-
Unused amounts reversed	-	38,440,839
	<b>U.I. (177,620,362)</b>	<b>(45,275,422)</b>

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	O.I. 10,603	7,987
Bank balances	-	1,095,336
Other cash and cash equivalents	L 2,342,706	-
Bank overdraft	L (26,064,617)	-
	<b>O.I. (23,711,308)</b>	<b>1,103,323</b>
Current assets	O.I. 2,353,309	1,103,323
Current liabilities	L (26,064,617)	-
	<b>O.I. (23,711,308)</b>	<b>1,103,323</b>

### The municipality had the following bank accounts

#### Current account(primary bank account)

##### ABSA Bank

Account number 4052707733

Cash book balance at the beginning of the year

Cash book balance at the end of the year

	PY 1,095,336	(9,358,221)
*	O.I. (26,064,617)	1,095,336
	-	-

#### Current account(primary bank account)

##### ABSA Bank

Account number 0110051048

Cash book balance at the beginning of the year

Cash book balance at the end of the year

	-	179,662
*	-	-
	-	-

#### Current account

##### ABSA

Account number 13000-0041

Cash book balance at the beginning of the year

Cash book balance at the end of the year

	-	-
*	O.I. 2,342,706	-
	<b>2,342,706</b>	-

Petty Cash

\* Formatting

10,603 7,987

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Formatting

Figures in Rand 2010 2009

### 8. Cash and cash equivalents (continued)

### 9. Non-current borrowings

#### Held at amortised cost

Government loans: Other	17,797,094	15,997,094
Other borrowings	7,986,595	8,650,311
Annuity loans	24,470	29,945
	<u>Q.11 25,808,159</u>	<u>24,677,350</u>

### Non-current liabilities

At amortised cost	T 24,368,246	T 22,680,523
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### Current liabilities

At amortised cost	T 1,439,913	T 1,996,827
	<u>Q.11 25,808,159</u>	<u>24,677,350</u>

### 10. Finance lease obligation

#### Minimum lease payments due

- within one year	936,078	759,647
- in second to fifth year inclusive	1,056,767	1,502,710
	<u>1,992,845</u>	<u>2,262,357</u>
less: future finance charges	(264,276)	(424,100)

<b>Present value of minimum lease payments</b>	<u>R.660 1,728,569</u>	<u>1,838,257</u>
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Non-current liabilities	T 370,244	T 1,268,683
Current liabilities	T 778,378	T 569,573

	<u>R.11 1,148,622</u>	<u>1,838,256</u>
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### 11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure grant	8,075,917	3,735,166
DWAF	300,562	114,978
LG Seta subsidy	861,886	87,719
Housing department	1,248,158	-
Department of Social Development	65,159	-
Local Government	340,000	-
DME - Electrification	2,484,430	-
Other grants	4,798,612	-
	<u>Q.11 T 18,174,724</u>	<u>T 3,937,863</u>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

### 12. Current tax receivable

N3 Does not transfer R1 difference

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand 2010 2009

### 12. Current tax receivable (continued)

VAT receivable V1.1 13,598,344 22,567,780

The municipality is registered on the cash basis for VAT purposes. This means that VAT is only declared once cash is received or actual payments are made.

### 13. Consumer deposits

Electricity and water V2.1 3,491,922 3,392,468

No provision is made for interest payable to consumers on deposits.

### 14. Revenue

Property rates	F3/8/A 48,341,497	33,412,364
Service charges	126,747,917	116,399,462
Rental of facilities & equipment	1,030,220	307,904
Fines	608,940	615,101
Government grants & subsidies	159,074,015	151,694,679
	<b>335,802,589</b>	<b>302,429,510</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	F3/8/A 126,747,917	116,399,462
Rental of facilities & equipment	1,030,220	307,904
	<b>127,778,137</b>	<b>116,707,366</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

Property rates	F3/8/A 48,341,497	33,412,364
Fines	608,940	615,101
Government grants & subsidies	159,074,015	151,694,679
	<b>208,024,452</b>	<b>185,722,144</b>

### 15. Property rates

#### Rates received

Property rates	54,832,745	33,412,364
Less: income forgone	(6,491,248)	-
	<b>48,341,497</b>	<b>33,412,364</b>

### 16. Service charges

Sale of electricity	XA1.1.1 70,600,513	46,983,309
Sale of water	30,552,623	30,930,979
Sewerage and sanitation charges	23,844,057	20,233,655
Refuse removal	20,340,201	18,251,519
Customers' incentives	XA1.1.2 (18,589,477)	-
	<b>126,747,917</b>	<b>116,399,462</b>



# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand 2010 2009

### 17. Government grants and subsidies

Equitable share	101,674,041	77,992,272
Government grant - FMG	750,000	500,000
LG SETA Subsidy	338,000	850,105
Government grant - DWAF	4,177,817	-
Mvula trust subsidy	150,000	-
Government grant - MSIG	1,300,000	735,000
Government grant - DME	3,885,570	-
District Municipality grant - Fezile Dabi DM	518,654	-
Government grant - MIG	39,858,250	71,617,302
Government grant - Department of Housing	4,231,842	-
Provincial Government grant - Other	5,000	-
	<u>159,074,015</u>	<u>151,694,679</u>

$6\ 416\ 683 - 4\ 231\ 842 = 2\ 184\ 841$

$159\ 074\ 015 - 151\ 694\ 679 = 7\ 379\ 336$   
 $7\ 379\ 336 - 5\ 194\ 495 = 2\ 184\ 841$   
 Does not cast

#### Municipal Infrastructure grant

Balance unspent at beginning of year	3,735,166	890,784
Current-year receipts	44,199,000	74,461,684
Conditions met - transferred to revenue	(39,858,249)	(71,617,302)
	<u>8,075,917</u>	<u>3,735,166</u>

Conditions still to be met - remain liabilities (see note 11)

#### DWAF

Balance unspent at beginning of year	114,978	114,978
Current-year receipts	4,363,402	-
Conditions met - transferred to revenue	(4,177,817)	-
	<u>300,563</u>	<u>114,978</u>

Conditions still to be met - remain liabilities (see note 11)

#### LG Seta Subsidy

Balance unspent at beginning of year	87,719	-
Current-year receipts	1,112,167	937,824
Conditions met - transferred to revenue	(338,000)	(850,105)
	<u>861,886</u>	<u>87,719</u>

Conditions still to be met - remain liabilities (see note 11)

#### Department of Housing

Current-year receipts	5,480,000	-
Conditions met - transferred to revenue	(4,231,842)	-
	<u>1,248,158</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 11)

#### Department of Social Development (Hlasela)

Current-year receipts	2,250,000	-
Conditions met - transferred to revenue	(2,184,841)	-
	<u>65,159</u>	<u>-</u>

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

2010

2009

### 17. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 11)

#### Local Government grant

Current-year receipts

Q 850 340,000

Conditions still to be met - remain liabilities (see note 11)

#### Department of Mineral and Energy

Current-year receipts

6,370,000

Conditions met - transferred to revenue

(3,885,570)

Q 1 2,484,430

Conditions still to be met - remain liabilities (see note 11)

#### Other grants

Current-year receipts

Q 850 4,798,611

Conditions still to be met - remain liabilities (see note 11)

### 18. Other income

Auction fees

56,478 72,986

Administration fees

416 568,847

Building plans and inspections

67,065 69,141

Grave plots

732,128 631,320

Clearance certificates

72,608 54,298

Reconnection / Connection fees

381,242 389,231

Sundry income

1,628,995 363,284

Pre-paid electricity cards

811,506 3,050,452

X All 3,750,438 5,199,559

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>19. General expenses</b>		
Advertisements	XB1.1 576,489	442,626
Annual report	┆ 449,176	212,720
Arts and culture markets	XB1.1.4 14,000	9,720
Auditors remuneration	XB1.1 2,868,682	2,427,151
Bank charges	┆ 995,152	699,698
Chemicals	XB1.1.3 2,812,008	1,983,504
Cleaning materials	XB1.1.1 728,528	387,534
Communication strategy	XB1.1.3 43,860	57,465
Consulting and professional fees	┆ 4,972,862	657,571
Community support programme	┆ 170,975	27,604
Cultural ceremonies	-	2,600
Donations - SPCA	XB1.1.3 31,330	4,620
Donations and bursaries	┆ 228,327	316,347
Electricity Ring Fencing	XB1.1.2 94,616	166,664
Employee wellness	XB1.1.5 28,285	1,193
Entertainment cost	XB1.1.3 1,282,433	1,199,829
Fleet management	XB1.1.5 183,502	115,512
Community development and training	XB1.1.4 1,454,552	-
Fuel and oil	XB1.1.1 3,907,584	6,791,545
Grave digging	XB1.1.3 1,100	51,725
Grant expenditure	XB1.1.4 16,388,822	-
Indigent subsidies	┆ 14,096,417	27,982,359
Indigent verification	XB1.1.1 53,068	39,339
Insurance	XB1.1.3 136,427	1,925,860
Legal fees	XB1.1.4 902,047	541,011
Licenses	XB1.1.1 253,212	528,436
Levies - training	XB1.1.2 28,072	6,800
Local economic development	XB1.1.1 670,300	771,575
Magazines, books and periodicals	XB1.1.4 18,390	70,428
Membership fees/Levies	XB1.1.1 29,564	16,049
Organisational development	XB1.1.1 390,509	385,233
Outsourcing of functions	XB1.1.4 242,482	31,611
Pauper burials	XB1.1.3 147,107	180,025
Performance management system	XB1.1.1 (433,094)	467,304
Postage and courier	XB1.1.4 1,174,650	878,442
Printing and stationery	XB1.1.2 1,449,398	579,254
Poverty alleviation	XB1.1.1 1,500,038	1,543,028
Protective clothing	XB1.1.1 996,777	673,168
Projects - Wards	XB1.1.3 2,258,541	1,508,097
Projects - Mayor	┆ 426,908	2,208,326
Publicity (marketing/branding)	XB1.1 508,980	350,118
Registration fees - operator	-	3,155
Rent - plant and vehicles	XB1.1.2 2,826,389	5,344,415
Revision of IDP	XB1.1.1 (63,435)	655,006
Subsistence, travelling and accommodation	XB1.1.5 1,456,112	1,078,832
Telephone and fax	XB1.1.2 670,236	2,553,702
Transport and freight	XB1.1.3 1,069,415	-
Training cost	XB1.1.2 882,459	891,050
Valuation roll expenses	XB1.1.4 790,684	5,145,249
Accommodation costs	XB1.1.1 567,577	-
Departmental income / expenses	XB1.1 2,578,076	(167,649)
Youth development	XB1.1 322,442	310,380
Other expenses	F3/35/A 74,496	100,950
	<b>┆ 73,256,527</b>	<b>┆ 72,157,181</b>

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

2010

2009

### 20. Employee related costs

Basic	U2.1	60,149,672	50,889,825
Bonus	I	4,530,358	5,863,834
Medical aid - company contributions	I	3,736,153	2,932,227
UIF	U2.1.1	612,679	518,350
Other payroll levies <sup>U2.1</sup> TB= 1104 571 diff= 1074 @		1,105,645	694,052
Leave pay provision charge	U2.1.1	1,232,522	2,473,023
Post-employment benefits - Pension - Defined contribution plan	U2.1	9,890,614	8,028,258
Overtime payments	I	3,910,332	4,354,934
Car allowance	U2.1.1	4,412,216	3,999,445
Housing benefits and allowances	U2.1	293,626	313,092
Other allowances	U2.1.1	2,913,670	643,727
Relief pay	I	1,046,009	753,357
		<u>93,833,496</u>	<u>81,464,124</u>

### Remuneration of municipal manager

Annual Remuneration	U510	338,918	596,410
Travel, motor car, accommodation, subsistence and other allowances	I	343,570	152,093
Contributions to UIF, Medical and Pension Funds		1,020	1,497
Acting allowance		147,023	-
		<u>830,531</u>	<u>750,000</u>

### Remuneration of chief finance officer

Annual Remuneration	U510	345,687	418,919
Travel, motor car, accommodation, subsistence and other allowances	I	318,187	179,584
Contributions to UIF, Medical and Pension Funds		1,149	1,497
Acting allowance		35,010	-
		<u>700,033</u>	<u>600,000</u>

### Remuneration of Director: Technical Services

Annual Remuneration	U510	487,500	440,028
Travel, motor car, accommodation, subsistence and other allowances	I	162,401	158,475
Contributions to UIF, Medical and Pension Funds		1,534	1,497
		<u>651,435</u>	<u>600,000</u>

### Remuneration of Director: Corporate Services

Annual Remuneration	U510	341,492	376,040
Travel, motor car, accommodation, subsistence and other allowances	I	148,060	158,610
Annual Bonuses		47,667	-
Contributions to UIF, Medical and Pension Funds		85,632	57,350
		<u>622,851</u>	<u>592,000</u>

### Remuneration of Director: Community Services

Annual Remuneration	U510	466,028	391,226
Travel, motor car, accommodation, subsistence and other allowances	I	166,844	130,898
Contributions to UIF, Medical and Pension Funds		1,479	1,497
		<u>634,351</u>	<u>523,621</u>

### 21. Remuneration of councillors

# Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

2010 2009

### 21. Remuneration of councillors (continued)

Executive Mayor		U2.1	417,651	351,257
Mayoral Committee Members				
Speaker	U2.1	1	1,016,172	1,046,553
Councillors	TB: 6 051 018 diff: 1075 @		280,095	284,237
			6,049,943	6,276,250
			<u>T 7,763,861</u>	<u>T 7,958,297</u>

### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

### 22. Debt impairment

Debt impairment		XB1.1.4	<u>T 132,659,767</u>	<u>T 5,633,832</u>
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### 23. Depreciation and amortisation

Property, plant and equipment		XB1.1.5	<u>T 30,867,988</u>	<u>T 2,811,936</u>
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### 24. Finance costs

Non-current borrowings		XB1.1.4	2,752,756	4,005,793
Bank		1	584,151	719,419
		XB1.1.4	<u>T 3,336,907</u>	<u>T 4,725,212</u>

### 25. Auditors' remuneration

Fees		XB1.1	<u>T 2,868,682</u>	<u>T 2,427,151</u>
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### 26. Contracted services

Operating Leases		XB1.1.5	1,997,971	1,326,664
Specialist Services - Security		XB1.1.1	944,573	713,737
Meter reading services		1	1,394,721	1,268,710
			<u>T 4,337,265</u>	<u>T 3,309,111</u>

### 27. Bulk purchases

Electricity		XB1.1	27,140,034	39,926,765
Water		1	6,972,628	5,754,789
			<u>T 34,112,662</u>	<u>T 45,681,554</u>

### 28. Cash generated from operations

(Deficit) surplus			(42,094,874)T	60,904,017
<b>Adjustments for:</b>				
Depreciation and amortisation		XB1.1.5	30,867,988	2,811,936
Gain on sale of assets and liabilities			-	20,083,938
Adjustment on current year surplus		P50/1	(6,884,649)	-
Interest income			-	(11,414,774)

# Ngwathe Local Municipality

(Registration number FS203)  
Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand 2010 2009

### 28. Cash generated from operations (continued)

Finance costs	XB11/4 3,336,907	4,005,793	
Debt impairment	┆ 132,659,767	-	
Movements in provisions	-	(832,250)	
Movement in tax receivable and payable	Ⓡ 8,969,436	65,800,916	
Movement in reserves	┆ 16,679	-	
<b>Changes in working capital:</b>			
Inventories	Ⓡ (17,743)	(664,032)	
Trade and other receivables from exchange transactions	┆ (4,814,870)	(27,635,060)	
Other receivables from non-exchange transactions	-	2,132,729	
Consumer debtors * <i>wrong movement</i>	* (67,176,360)	(89,761,018)	
Other non-current receivables	-	(3)	
Trade and other payables from exchange transactions	Ⓡ (31,695,156)	704,056	
Unspent conditional grants and receipts	┆ 14,236,861	3,047,079	
Consumer deposits	┆ 99,454	-	
	<u>37,503,440</u>	<u>61,532,156</u>	Ⓡ Doc not co:

29183307

### 29. Related parties

#### Relationships

Entity owned by Councillor, Mr G. Mandelstam  
Entity owned by Councillor, Mr E.C Sothoane  
Entity owned by Parys regional manager, Mr L. Marumo

Du Toit & Mandelstam  
E.C Sothoane funeral services  
Batho Pele Funeral Parlour

#### Related party transactions

##### Amounts paid to related parties

Du Toit & Mandelstam	E100/67/11 9,042	49,461	
E.C Sothoane funeral services	┆ 7,380	-	
Batho Pele Funeral Parlour	┆ 2,000	4,600	

Capital infrastructure and legal fees in respect of fruitless expenditure were rendered by Du Toit & Mandstam.

Funeral services were rendered by E.C Sothoane funeral services

Funeral services were rendered by Batho Pele Funeral Parlour

##### Amounts Owing to related parties

Du Toit & Mandelstam	-	570	
E.C Sothoane funeral services	E100/67 1,950	-	

### 30. Fruitless and wasteful expenditure

Eskom	Ex 274 3,022,397	1,728,915	
Rand Water	10,461	57,832	
Data M	4,953	488	
Pension Fund	16,523	2,015	
Sheriff of the court	-	641	
Grimbeek Attorneys	-	5,107	
Jansen Attorneys	-	904	
SARS	1,041,420	549,574	
Garage Cards	-	1,391,254	
Legal Cost	321,964	-	
Long-term loan penalties	15,047	-	
	<u>4,432,765</u>	<u>3,736,730</u>	

The above expenditure have been identified as fruitless and wasteful expenditure due to interest of overdue accounts.

NS 667518 + 42 78677 = 49461

**Ngwathe Local Municipality**  
 (Registration number FS203)  
 Annual Financial Statements for the year ended 30 June 2010

**Notes to the Annual Financial Statements**

Figures in Rand 2010      2009

**31. Irregular expenditure**

Opening balance	Ex274 1,144,912	-
Add: Irregular Expenditure - current year	1,320,460	1,144,912
Less: Amounts condoned	-	-
	<u>2,465,372</u>	<u>1,144,912</u>

Irregular expenditure R1 320 460 (R1 144 912 :2009) will be submitted to council for consideration. A detailed register of irregular expenditure is available for inspection.

The Accounting Officer  
Ngwathe Local Municipality  
P.O.Box 359  
Parys  
9589

29 November 2010

Reference: 21394REG09/10

Dear Sir

**MANAGEMENT REPORT ON THE REGULARITY AUDIT OF THE NGWATHE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

**INTRODUCTION**

1. This management report relates to our audit of the financial statements and the review of the performance information for the year ended 30 June 2010.
2. The report contains the following main subsections:
  - The Auditor-General's responsibilities
  - The accounting officer's responsibilities
  - Misstatements in the financial statements
  - Matters to be drawn to the attention of the users
  - Other legal and regulatory reporting requirements
  - Information technology systems
  - Specific focus areas
  - Details of significant deficiencies in internal control relevant to the audit of the financial statements reporting on predetermined objectives and compliance with laws and regulations
  - Remedial action taken on audit outcomes of prior years
  - Matters that may give rise to future audit findings if not addressed
  - Ratings of the audit findings
  - Summary of detailed audit findings
3. Annexures A, B, and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and this report includes management's responses.



## **THE AUDITOR-GENERAL'S RESPONSIBILITIES**

4. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of the report on predetermined objectives and compliance with key laws and regulations. Our engagement letter sets out our responsibilities in detail. These include the following:
  - Planning and performing the audit to obtain reasonable assurance about whether the financial statements and the review of performance information are free from material misstatements, whether caused by fraud or error.
  - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
  - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements and report on performance information, and compliance with laws and regulations.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
  - Evaluating compliance with applicable legislation relating to financial matters, financial management and other related matters.
  - Evaluating the appropriateness of systems and processes to ensure the accuracy and completeness of reporting on performance information.
  - Evaluating the overall presentation of the financial statements.
  - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
  - Reading other information in documents containing the audited financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements and performance information, or compliance with all applicable legislation.
6. Having formed an opinion on the financial statements we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion, the following paragraphs could be included in the auditor's report:
  - An Emphasis of matter paragraph only to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements.
  - An Additional matter paragraph to draw users' attention to any matter other than those presented or disclosed in the financial statements that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

## **THE ACCOUNTING OFFICER'S RESPONSIBILITIES**

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
  - The preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practise.
  - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.

- Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
- Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, of which the effects should be considered when preparing financial statements.
- Monitoring and reporting on performance against predetermined objectives.
- Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records, documents and other matters.
- Disclosing all matters concerning any risk, allegation or instances of fraud.
- Accounting for and disclosing related party relationships and transactions.

**SUMMARY OF DETAILED AUDIT FINDINGS**

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008-09	2007/08	2006/07
<b>Borrowings &amp; long-term loans</b>												
	Loans & borrowings: Debt not repaid as required [Ex 212] <b>(EX.212)</b>			✓				✓				
	Loans & Borrowings: Grants received from the National Treasury not repaid accordingly [Ex 220] <b>(EX.220)</b>				✓		✓					
	Loans & borrowings: Loan not measured at fair value [Ex 216] <b>(EX.216)</b>	✓						✓				
	Loans & borrowings: Grants received incorrectly showed as liability [Ex 275] <b>(EX.275)</b>				✓		✓					
<b>Cash and cash equivalents</b>												
	Bank and cash: Amount received not deposited [Ex 11] <b>(EX.11)</b>	✓					✓			✓	✓	
	Bank and cash: Expenditure recorded in the wrong financial year [Ex 48] <b>(EX.48)</b>	✓					✓					

	Bank and cash: Insufficient controls over daily cash-up processes [Ex. 5] <b>(EX.5)</b>				✓			✓		✓	✓	
	Bank and cash: Lack of control over cheques received through mail and delivered at municipal offices [Ex. 3] <b>(EX.3)</b>				✓			✓		✓		
	Bank and cash: No signatories for bank account [Ex 246] <b>(EX.246)</b>				✓			✓				
	Bank and cash: Unknown deposits [Ex 245] <b>(EX.245)</b>	✓					✓			✓		
<b>Contingent liabilities</b>												
	AFS: GRAP 17 - Completeness of PPE and contingent liabilities unconfirmed [Ex 144] <b>(EX.144)</b>	✓					✓				✓	
<b>Employee costs</b>												
	Payroll: Accuracy of employee deductions [Ex 86] <b>(EX.86)</b>				✓			✓				
	Payroll: Accuracy of payroll masterfile [Ex 65] <b>(EX.65)</b>				✓			✓				
	Payroll: Appointment records of employees not obtained [Ex 41] <b>(EX.41)</b>				✓			✓		✓		
	Payroll: Deductions not paid over to SARS [Ex 207] <b>(EX.207)</b>				✓		✓			✓		
	Payroll: Disclosure of key personnel remuneration [Ex 122] <b>(EX.122)</b>	✓					✓					
	Payroll: Employees with duplicate bank account details [Ex 67] <b>(EX.67)</b>				✓			✓				
	Payroll: Employees with duplicate or missing ID numbers [Ex 66] <b>(EX.66)</b>				✓			✓			✓	

Payroll: Incorrect salary increases [Ex 44] <b>(EX.44)</b>	✓						✓				
Payroll: Late submission of EMP 201 forms for employee taxes due [Ex 87] <b>(EX.87)</b>			✓			✓				✓	
Payroll: Late third party payment [Ex 77] <b>(EX.77)</b>	✓						✓			✓	
Payroll: Monthly reports could not be obtained [Ex 91] <b>(EX.91)</b>				✓			✓				
Payroll: Non disclosure of liability for long service leave [Ex 123] <b>(EX.123)</b>	✓						✓			✓	
Payroll: Non disclosure of the bonus provision liability [Ex 126] <b>(EX.126)</b>	✓					✓			✓		
Payroll: Outstanding documentation for other allowances [Ex 128] <b>(EX.128)</b>	✓					✓					
Payroll: Outstanding documentation for travel allowances [Ex 130] <b>(EX.130)</b>				✓			✓				
Payroll: Outstanding supporting documentation for travel and subsistence expenses [Ex 15] <b>(EX.15)</b>				✓			✓				
Payroll: Over-payment of annual bonus [Ex125] <b>(EX.125)</b>	✓						✓		✓		
Payroll: Over-payment of overtime [Ex 124] <b>(EX.124)</b>	✓						✓		✓		
Payroll: Overtime incorrectly paid [Ex 43] <b>(EX.43)</b>	✓						✓				
Payroll: Post retirement benefit liabilities [Ex 80] <b>(EX.80)</b>	✓					✓				✓	
Payroll: Reconciliation between payday and E-Venus [Ex 54] <b>(EX.54)</b>	✓					✓			✓		
Payroll: Salary suspense accounts (Lack of supporting documentation) [Ex 89] <b>(EX.89)</b>				✓		✓				✓	

Payroll: Staff leave provision calculated incorrectly [Ex 197] <b>(EX.197)</b>	✓					✓					
Payroll: Termination of employees [Ex 42] <b>(EX.42)</b>				✓			✓				
<b>Internal control</b>											
Entity level controls: Audit committee not functioning [Ex.1] <b>(EX.1)</b>			✓			✓			✓	✓	
Entity level controls: Fraud prevention plan not obtained [Ex.8] <b>(EX.8)</b>				✓		✓			✓	✓	
Entity level controls: Internal audit not effective [Ex.2] <b>(EX.2)</b>				✓		✓			✓	✓	
Journals: Insufficient controls over the processing of journal entries [Ex 241] <b>(EX.241)</b>				✓			✓				
Journals: Lack of supporting documents [Ex 221] <b>(EX.221)</b>				✓		✓			✓		
Non-compliance: DORA - Compliance unconfirmed [Ex 18] <b>(EX.18)</b>			✓				✓				
Non-compliance: MFMA - Municipal Manager not performing required responsibilities [Ex 40] <b>(EX.40)</b>			✓				✓		✓		
Propac: Resolution 36 of 2007 - Municipal services not environmentally sustainable [Ex 142] <b>(EX.142)</b>					✓		✓				
Suspense accounts: Not followed-up and cleared timeously [Ex 147] <b>(EX.147)</b>	✓					✓			✓	✓	

Compliance											
	Expenses: Payments and reporting not done timeously [Ex 203] <b>(EX.203)</b>			✓				✓			
	Expenses: Service level agreements not supplied [Ex 79] <b>(EX.79)</b>			✓			✓				
	Non-compliance: Appointment and performance agreements of management not obtained [Ex 213] <b>(EX.213)</b>			✓			✓			✓	
	Non-compliance: Budget - Insufficient monthly reporting to mayor/council [Ex 201] <b>(EX.201)</b>			✓				✓		✓	
	Non-compliance: Budget - Insufficient monthly reporting to Treasury [Ex 211] <b>(EX.211)</b>			✓				✓			
	Non-compliance: Budget - No approved service delivery and budget implementation plan [Ex 154] <b>(EX.154)</b>			✓			✓			✓	
	Non-compliance: Budget - Responsibilities of Mayor not performed as required [Ex 206] <b>(EX.206)</b>			✓				✓		✓	
	Non-compliance: Budget - Timelines not communicated with Council [Ex 200] <b>(EX.200)</b>			✓				✓		✓	✓
	Non-compliance: Customer care insufficient [Ex 202] <b>(EX.202)</b>			✓				✓			
	Non-compliance: DORA - Information not properly reported [Ex 244] <b>(EX.244)</b>			✓				✓			
	Non-compliance: MFMA & MSA - Website does not contain all required information [Ex 153] <b>(EX.153)</b>			✓				✓		✓	

	Non-compliance: MFMA - Annual report not submitted timeously [Ex 93] <b>(EX.93)</b>			✓				✓		✓		
	Non-compliance: MFMA - Duties not performed as required [Ex 271] <b>(EX.271)</b>			✓				✓				
	Non-compliance: MFMA - Not all information disclosed in the annual reports [Ex 88] <b>(EX.88)</b>			✓				✓				
	Non-compliance: MFMA - Payment made not in aid of municipality [Ex 50] <b>(EX.50)</b>			✓				✓				
	Non-compliance: MFMA - Proper Asset and liability management unconfirmed [Ex 30] <b>(EX.30)</b>				✓		✓					
	Non-compliance: MFMA - Senior Manager not performing required duties [Ex 151] <b>(EX.151)</b>			✓			✓					
	Non-compliance: MSA - Capacity building lacking [Ex 164] <b>(EX.164)</b>			✓				✓				
	Non-compliance: MSA - Complaints and inputs not taken into account [Ex 243] <b>(EX.243)</b>			✓				✓				
	Non-compliance: MSA - Correspondence files not made available [Ex 19] <b>(EX.19)</b>			✓				✓				
	Non-Compliance: MSA - Credit control and debt collection not implemented effectively [Ex 171] <b>(EX.171)</b>			✓				✓				
	Non-compliance: MSA - Credit control and debt collection policy insufficient [Ex 23] <b>(EX.23)</b>			✓				✓				
	Non-compliance: MSA - Delegations does not maximize administrative and operational efficiency [Ex 188] <b>(EX.188)</b>			✓					✓		✓	
	Non-compliance: MSA - Insufficient monitoring over credit control and debt collection policy [Ex 22] <b>(EX.22)</b>			✓				✓				



	Non-compliance: MSA - No evidence of By-laws being adopted and implemented [Ex 21] <b>(EX.21)</b>			✓				✓			✓	
	Non-compliance: MSA - Proper interaction mechanisms not established [Ex 56] <b>(EX.56)</b>			✓				✓				
	Non-compliance: MSA - Roles, responsibilities and communications channels not established [Ex 184] <b>(EX.184)</b>			✓					✓			
	Non-compliance: MSA - Service delivery agreement not signed [EX 186] <b>(EX.186)</b>			✓				✓			✓	
	Non-compliance: Responsibilities of MM not performed as required [Ex 263] <b>(EX.263)</b>			✓				✓		✓		
	Non-compliance: Reporting - No evidence of employee benefits being reported to council [Ex 235] <b>(EX.235)</b>			✓			✓			✓		
	Non-compliance: Responsibilities of council not properly performed [Ex 205] <b>(EX.205)</b>			✓				✓				
	Non-compliance: Service delivery by municipality insufficient [Ex 199] <b>(EX.199)</b>			✓				✓				
	Non-compliance: Water Services Act - No bylaws implemented [Ex 60] <b>(EX.60)</b>			✓				✓				
	Non-compliance: Water Services Act - Water service plan insufficient [Ex 215] <b>(EX.215)</b>			✓				✓				
	Procurement: Non compliance with reporting requirements [Ex 257] <b>(EX.257)</b>			✓				✓				
<b>Going Concern</b>												
	Going Concern: Risks identified [Ex 45] <b>(EX.45)</b>	✓						✓			✓	✓

Financial Statements													
	AFS: GRAP - Financials don't comply with standard [Ex 71] <b>(EX.71)</b>				✓						✓		
	AFS: GRAP 1 - Incorrect presentation in the financial statements [Ex 116] <b>(EX.116)</b>				✓		✓				✓		
	AFS: GRAP 1 Comparative figures restated without proper disclosure [Ex 72] <b>(EX.72)</b>				✓		✓				✓		
	AFS: GRAP 12 - Inventory policy not fully applicable [Ex 110] <b>(EX.110)</b>				✓			✓			✓		
	AFS: GRAP 13 - Limitation of scope in respect of leases disclosed [Ex 121] <b>(EX.121)</b>				✓		✓				✓		
	AFS: GRAP 2 - Cash flow statement incorrect [Ex 117] <b>(EX.117)</b>				✓		✓				✓		
	AFS: GRAP 3 - Accounting policies, changes in accounting estimates and errors [Ex 118] <b>(EX.118)</b>				✓		✓				✓		
	AFS: IPSAS 20 - Not all required information of related party transactions disclosed [Ex 115] <b>(EX.115)</b>				✓		✓				✓		
	AFS: No controls implemented over AFS and subsequent events [Ex 162] <b>(EX.162)</b>				✓			✓		✓			
Immovable assets													
	Assets: Fixed asset register does not agree to annual financial statements [Ex 37] <b>(EX.37)</b>	✓						✓			✓	✓	✓

Inventory												
	Inventory: Adjustments not processed [Ex 157] <b>(EX.157)</b>	✓						✓				
	Inventory: Inventory listing does not agree to the trial balance [Ex 156] <b>(EX.156)</b>	✓						✓				
Investment property												
	AFS: GRAP 16 - Completeness of Investment Property disclosure unconfirmed [Ex 112] <b>(EX.112)</b>	✓					✓				✓	
Investments												
	Investments: Life policy linked to life of employee not working at municipality anymore [Ex.185] <b>(EX.185)</b>				✓			✓				
	Investments: Delegation of power contrary to requirements [Ex 163] <b>(EX.163)</b>			✓				✓				
	Investments: Non-compliance - Investment policy [Ex 82] <b>(EX.82)</b>				✓			✓			✓	
	Investments: Sanlam shares does not comply with investment regulations [Ex 83] <b>(EX.83)</b>			✓				✓			✓	
Leases												
	Leases: Outstanding information with regards finance leases [Ex 73] <b>(EX.73)</b>	✓						✓				
	Leases: Outstanding information with regards to lease contracts [Ex 33] <b>(EX.33)</b>	✓						✓			✓	

<b>Movable assets</b>											
Assets: Additions not recorded in fixed asset register [Ex 98] <b>(EX.98)</b>	✓						✓				
Assets: Approval of disposals unconfirmed [Ex 183] <b>(EX.183)</b>	✓							✓			
Assets: Assets not impaired timeously [Ex 84] <b>(EX.84)</b>	✓							✓			
Assets: Lack of physical controls over moveable assets [Ex 100] <b>(EX.100)</b>			✓					✓		✓	
Assets: No physical verification done on fixed assets [Ex 99] <b>(EX.99)</b>				✓			✓				
Assets: Outstanding information with regards to fixed assets [Ex 55] <b>(EX.55)</b>			✓				✓			✓	
Assets: Prior year misstatements not resolved [Ex 136] <b>(EX.136)</b>	✓							✓			
Assets: Public Office Bearers - Use of mayor vehicle not properly monitored [Ex 214] <b>(EX.214)</b>			✓					✓			
<b>Operating expenditure</b>											
Expenses: Accuracy of bad debt expenses unconfirmed [Ex 143] <b>(EX.143)</b>	✓							✓			
Expenses: Assets incorrectly classified as expenses [Ex 167] <b>(EX.167)</b>	✓							✓			✓
Expenses: Expenses not recognised on accrual basis [Ex 170] <b>(EX.170)</b>					✓			✓		✓	
Expenses: Fruitless & wasteful and irregular expenditure [Ex 274] <b>(EX.274)</b>			✓				✓			✓	✓

Expenses: Incorrect classification of expenses [Ex 168] <b>(EX.168)</b>	✓						✓				
Expenses: Journal incorrectly posted [Ex 101] <b>(EX.101)</b>	✓					✓					
Expenses: Lack of supporting documentation [Ex 92] <b>(EX.92)</b>	✓					✓			✓		
Expenses: Lack of supporting documentation for bulk purchases [Ex 129] <b>(EX.129)</b>	✓					✓			✓		
Expenses: Lack of supporting documentation for payments made [Ex 13] <b>(EX.13)</b>	✓						✓		✓		
Expenses: Lack of supporting documents [Ex 273] <b>(EX.273)</b>	✓					✓					✓
Expenses: Misstatement of bulk purchases [Ex 165] <b>(EX.165)</b>	✓						✓				
Expenses: Payment reports not compiled as required [Ex 237] <b>(EX.237)</b>			✓			✓					
Expenses: Recognised in the incorrect period [Ex 166] <b>(EX.166)</b>	✓						✓			✓	
Expenses: Significant decrease in contributions to indigent debtors not explained [Ex 141] <b>(EX.141)</b>	✓					✓					
Expenses: Unauthorised expenditure due to budget being exceeded [Ex 59] <b>(EX.59)</b>	✓					✓			✓		
Irregular expenditure: Misuse of garage cards [Ex 20] <b>(EX.20)</b>			✓			✓			✓	✓	
Loans and borrowings: Trial balance and external confirmations don't reconcile [Ex 138] <b>(EX.138)</b>	✓					✓					

Non-compliance: Budget - Approved budget could not be confirmed [Ex 36] <b>(EX.36)</b>				✓			✓				
Non-compliance: Budget - Shortfalls and overspending not properly monitored [Ex 85] <b>(EX.85)</b>			✓				✓				
Payables: Creditors not paid within 30 days [Ex 172] <b>(EX.172)</b>			✓			✓					
Payables: Creditors on trial balance incomplete [Ex 134] <b>(EX.134)</b>	✓					✓					
Payroll: Interest charged on PAYE, UIF and SDL accounts in arrears - SARS [Ex 209] <b>(EX.209)</b>				✓			✓		✓	✓	
Procurement: Appointments of consultants not properly recorded and monitored [Ex 194] <b>(EX.194)</b>				✓			✓		✓		
Procurement: Council oversight over SCM insufficient [Ex 193] <b>(EX.193)</b>				✓			✓				
Procurement: Declarations of interest of staff and councillors not obtained [Ex 223] <b>(EX.223)</b>			✓				✓				
Procurement: Evidence not submitted of proper bid processes being followed [Ex 192] <b>(EX.192)</b>				✓			✓				
Procurement: Information relating evaluation of prospective providers could not be obtained [Ex 191] <b>(EX.191)</b>				✓			✓				
Procurement: Insufficient evidence of goods and services received [Ex 255] <b>(EX.255)</b>			✓			✓					
Procurement: Insufficient monitoring of contractor's performance [Ex 224] <b>(EX.224)</b>					✓		✓				
Procurement: Irregular expenditure due lack of supporting documentation for purchases [Ex 252] <b>(EX.252)</b>			✓			✓					

Procurement: Irregular expenditure due to competitive bidding documents not supplied [Ex 253] <b>(EX.253)</b>			✓			✓					
Procurement: Irregular expenditure in respect of awards between R10 000 and R200 000 [Ex 259] <b>(EX.259)</b>			✓				✓				
Procurement: Monitoring reports not obtained [Ex 189] <b>(EX.189)</b>				✓			✓				
Procurement: Non compliance with procurement of banking services [Ex 254] <b>(EX.254)</b>			✓				✓				
Procurement: Non-compliance as required controls not implemented [Ex 250] <b>(EX.250)</b>				✓			✓				
Procurement: Not all regulatory requirements included in SCM policy [Ex 240] <b>(EX.240)</b>			✓				✓		✓		
Procurement: Petty cash purchases not properly monitored [Ex 251] <b>(EX.251)</b>			✓				✓				
Procurement: Quotations not properly monitored on a monthly basis [Ex 190] <b>(EX.190)</b>				✓			✓				
Procurement: Risk assessment of SCM system not performed [Ex 195] <b>(EX.195)</b>				✓			✓				
Procurement: SCM processes not evaluated and reviewed [Ex 225] <b>(EX.225)</b>			✓				✓				
Propac: Resolution 4 of 2010 [Ex 120] <b>(EX.120)</b>				✓		✓					
Receivables: Classification of contribution to indigent debtors [Ex 106] <b>(EX.106)</b>	✓					✓			✓		
VAT: Input VAT disallowed by SARS [Ex 218] <b>(EX.218)</b>				✓		✓					

	VAT: Input VAT incorrectly claimed by municipality [Ex 173] <b>(EX.173)</b>	✓					✓			✓		
	VAT: Interest charged for late submission of VAT 201's [Ex 210] <b>(EX.210)</b>				✓			✓				
<b>Payable</b>												
	Payables - Accrual lists not provided [Ex 150] <b>(EX.150)</b>	✓						✓			✓	
	Payables: Balance per general ledger does not agree with the balance per the creditors list [Ex 104] <b>(EX.104)</b>	✓					✓					
	Payables: Control over payments not operating effectively [Ex.51] <b>(EX.51)</b>				✓			✓		✓		
	Payables: Controls over payments [Ex 25] <b>(EX.25)</b>				✓			✓		✓		
	Payables: Creditors reconciliations and month end statements for 30 June 2010 [Ex 179] <b>(EX.179)</b>				✓		✓			✓		
	Payables: Detailed schedules regarding sundry creditors [Ex 180] <b>(EX.180)</b>				✓		✓					
	Payables: Detailed schedules regarding suspense accounts [Ex 181] <b>(EX.181)</b>				✓		✓			✓		
	Payables: Insufficient review of supporting documents before authorisation of payments [Ex.38] <b>(EX.38)</b>				✓			✓		✓		
	Payables: No supporting documentation for Suspense Accounts [Ex 219] <b>(EX.219)</b>				✓		✓					
	Payables: Supporting documents could not be obtained [Ex 182] <b>(EX.182)</b>				✓		✓			✓		
	Payables: Unavailability of proof of cashfocus payments [Ex 35] <b>(EX.35)</b>			✓				✓				



	Payables: Understatement of liability [Ex 178] <b>(EX.178)</b>	✓					✓			✓		
<b>Performance information</b>												
	Entity level controls: Risk Assessment [Ex 49] <b>(EX.49)</b>		✓					✓		✓	✓	
	Non-compliance: Budget - SDBIP was not approved [Ex 230] <b>(EX.230)</b>		✓				✓				✓	
	Performance information: Budget - Annual IDP and budget don't reconcile [Ex 231] <b>(EX.231)</b>			✓			✓					✓
	Performance information: IDP and budget not aligned [Ex 227] <b>(EX.227)</b>		✓				✓				✓	
	Performance information: IDP does not comply with all requirements [Ex 229] <b>(EX.229)</b>			✓			✓				✓	
	Performance information: IDP does not meet requirements [Ex 226] <b>(EX.226)</b>			✓			✓			✓	✓	✓
	Performance Information: IDP not consistent with Annual Performance report [Ex 268] <b>(EX.268)</b>		✓				✓					
	Performance Information: Indicators / measures in the IDP are not well defined and targets are not specific. [Ex 265] <b>(EX.265)</b>		✓				✓					
	Performance information: KPI's not properly determined [Ex 228] <b>(EX.228)</b>		✓				✓			✓	✓	✓
	Performance Information: Lack of supporting documentation [Ex 256] <b>(EX.256)</b>				✓		✓				✓	
	Performance information: MFMA section 72(1) [Ex 238] <b>(EX.238)</b>		✓				✓				✓	
	Performance information: No Controls implemented [Ex 258] <b>(EX.258)</b>				✓		✓					

	Performance information: Non-compliance - Mayor did not review budget implementation plan and service delivery [Ex 233] <b>(EX.233)</b>		✓				✓			✓	✓	✓
	Performance information: Non-compliance - No evidence performance of municipality properly managed [Ex 234] <b>(EX.234)</b>		✓				✓				✓	
	Performance Information: Not all information required reported on [Ex 239] <b>(EX.239)</b>		✓				✓				✓	
	Performance information: Performance management system not functioning [Ex 217] <b>(EX.217)</b>		✓				✓				✓	
	Performance information: Submission of the Integrated Development Plan to the MEC [EX 63] <b>(EX.63)</b>		✓					✓			✓	
<b>Provisions</b>												
	Provisions: No Provisions or contingent liabilities raised [Ex 135] <b>(EX.135)</b>	✓					✓			✓		
	Provisions: Rehabilitation of landfill sites not provided for [Ex 96] <b>(EX.96)</b>	✓					✓					
<b>Receivables</b>												
	AFS: GRAP 1 - Incorrect classification of accounts in the financial statements [Ex 105] <b>(EX.105)</b>	✓					✓				✓	
	Payroll: Non-processing of payment of SARS related accounts with VAT refunds [Ex 208] <b>(EX.208)</b>	✓					✓			✓		
	Receivables: Application forms for indigent debtors [Ex.29] <b>(EX.29)</b>				✓			✓		✓		
	Receivables: Approval of indigent debtors [Ex 53] <b>(EX.53)</b>				✓			✓		✓		

Receivables: Approval to debtor masterfile changes could not be tested due to a lack of supporting documentation [Ex 139] <b>(EX.139)</b>				✓		✓			✓		
Receivables: Controls regarding debtor masterfile changes [EX 267] <b>(EX.267)</b>				✓			✓				
Receivables: Credit balances for debtors not valid [Ex 152] <b>(EX.152)</b>	✓					✓					
Receivables: Employee accounts in arrear [Ex 131] <b>(EX.131)</b>				✓			✓		✓		
Receivables: General ledger does not agree to the age analysis [Ex 58] <b>(EX.58)</b>	✓					✓			✓	✓	
Receivables: Impairment not in terms of IAS39 [Ex 137] <b>(EX.137)</b>	✓					✓			✓		
Receivables: No proof of action against long outstanding debtors [Ex 107] <b>(EX.107)</b>			✓				✓		✓		
Receivables: No proof that management resolved or rectified prior year audit findings [Ex 140] <b>(EX.140)</b>				✓			✓				
Receivables: Outstanding information with regards to items in sewerage suspense account [Ex 76] <b>(EX.76)</b>	✓						✓		✓	✓	
Receivables: Rates and taxes - Property transfers occurred without sufficient evidence of final payment [Ex 204] <b>(EX.204)</b>			✓				✓				
Receivables: Stop-order with regards to closed account not stopped [Ex 155] <b>(EX.155)</b>				✓			✓				
Receivables: Supporting documentation in respect of RD cheques not submitted [Ex 75] <b>(EX.75)</b>	✓					✓			✓		

	VAT: Unrecognised VAT output from unallocated receipts [Ex 187] <b>(EX.187)</b>	✓					✓					
	VAT: Unreconciled difference between the VAT 201 and the VAT control accounts [Ex 174] <b>(EX.174)</b>	✓					✓					
	VAT: VAT suspense accounts -Lack of supporting documentation [Ex 176] <b>(EX.176)</b>	✓					✓					
<b>Related parties</b>												
	Related Parties: Unable to obtain register of declaration of interest. [Ex 9] <b>(EX.9)</b>				✓			✓			✓	
<b>Reserves</b>												
	Appropriations - Lack of supporting schedule [Ex 247] <b>(EX.247)</b>	✓					✓				✓	
	Equity: Lack of a Housing Development [Ex 261] <b>(EX.261)</b>				✓		✓			✓		
	Non-compliance: Housing Act - Rental proceeds used for operational costs [Ex 249] <b>(EX.249)</b>			✓				✓		✓		
	Non-compliance: Housing Act - reports not maintained [Ex 262] <b>(EX.262)</b>			✓				✓				
	Non-compliance: Housing Act [Ex 248] <b>(EX.248)</b>			✓				✓		✓		
	Reserves: Lack of policy for reserves [Ex 260] <b>(EX.260)</b>				✓		✓			✓	✓	
<b>Revenue</b>												
	Non-compliance: MSA - No by-law with regards to tariff policy [Ex 52] <b>(EX.52)</b>			✓				✓		✓	✓	
	Revenue: Accounts opened without adequate supporting documentation [Ex 158] <b>(EX.158)</b>				✓			✓				

Revenue: Completeness of prepaid electricity [Ex 270] <b>(EX.270)</b>	✓					✓			✓		
Revenue: Departmental revenue indicated as a loss [Ex 95] <b>(EX.95)</b>	✓					✓			✓		
Revenue: Estimated reticulation losses [Ex 159] <b>(EX.159)</b>	✓					✓			✓		
Revenue: Existence of prepaid electricity [Ex 269] <b>(EX.269)</b>	✓						✓				
Revenue: Grant related expenses [Ex 222] <b>(EX.222)</b>				✓			✓				
Revenue: Incorrect accounting practice for prepaid electricity [Ex 146] <b>(EX.146)</b>	✓					✓			✓		
Revenue: Interest list does not agree to trial balance [Ex 114] <b>(EX.114)</b>	✓					✓					
Revenue: Interest on long outstanding debtors [Ex 108] <b>(EX.108)</b>	✓					✓			✓		
Revenue: Journals processed in the billing system could not be audited [Ex 161] <b>(EX.161)</b>	✓					✓			✓		
Revenue: Lack of supporting documentation for sundry income [Ex 272] <b>(EX.272)</b>	✓					✓					
Revenue: List of invoices issued to debtors [Ex 94] <b>(EX.94)</b>	✓					✓					
Revenue: Meter readings not taken regularly [Ex 26] <b>(EX.26)</b>	✓					✓			✓	✓	
Revenue: Misstatement of property rates [Ex 47] <b>(EX.47)</b>	✓					✓			✓		
Revenue: Monthly exception reports not reviewed by management [Ex.7] <b>(EX.7)</b>				✓			✓			✓	

Revenue: Monthly fluctuations not followed up [Ex 119] <b>(EX.119)</b>	✓					✓			✓		
Revenue: No reason supplied when meter readings are changed [Ex 103] <b>(EX.103)</b>				✓			✓				
Revenue: Prepaid meter readings not operating effectively [Ex 148] <b>(EX.148)</b>				✓		✓					
Revenue: Rates and taxes - Overstatement of rebates [Ex 46] <b>(EX.46)</b>	✓						✓				
Revenue: Rates not charged on all stands [Ex 145] <b>(EX.145)</b>	✓					✓			✓		
Revenue: Reconciliations not performed [Ex 109] <b>(EX.109)</b>				✓			✓		✓		
Revenue: Units sold according to reports not accurate [Ex 102] <b>(EX.102)</b>				✓			✓		✓		
VAT: VAT 201 does not account for zero rated and exempt supplies VAT [Ex 175] <b>(EX.175)</b>	✓					✓					

## **Annexure C – Administrative matters**