

# **KOPANONG LOCAL MUNICIPALITY**

## **ANNUAL REPORT FOR THE FINANCIAL YEAR ENDING 30 JUNE 2007**



**PR245/2007**

**ISBN: 978-0-621-37582-4**

## CONTENTS

	<b>Mayor's foreword</b>	3
	<b>Executive Summary – Municipal Manager</b>	6
	<b>Kopanong Map</b>	7
<b>Chapter 1</b>	<b>Kopanong: In the Broader Context</b>	8
	Key Statistics	9
	Economy	11
	Human Capacity Development	11
	Health and Safety	11
	Infrastructure and Basic Services	11
	Social Capital	11
	Natural Resources & Environment	12
<b>Chapter 2</b>	<b>Towards Effective Service Delivery and Sound Financial Management</b>	
	Setting up the Municipality	14
<b>Chapter 3</b>	<b>Executive &amp; Council Structure</b>	16
<b>Chapter 4</b>	<b>Vision and Strategic Plan</b>	18
<b>Chapter 5</b>	<b>Administrative Structure</b>	24
	Management Team	24
	Municipal Manager's Office	25
	Corporate Services	28
	Technical Services	32
	Community services	34
	Financial Services	37
	Performance Management	39
<b>Chapter 6</b>	<b>Audited Annual Financial Statements</b>	89
	Accounting Officer: Outstanding Debt	90
	Financial Statements	91
	Report of the Auditor General	122
	Responses to the Audit Report	136
	Responses from the Audit Committee	175



**ENTRANCE TO TROMPSBURG**  
**Head Office of Kopanong Local Municipality**

## MAYOR'S FOREWORD



### Foreword

**"The struggle in South Africa, let us be very clear, was not and is not a struggle of the African people against the whites, but a struggle of humanism against racism.**

**If it were a mere revolt of the slaves or a face war by blacks against whites, the situation would be very difficult and different.**

**In the South African society where the whites live in comfort on the labour of blacks, all that is needed to spread panic in the whole white community, as someone said, is a conspiracy of a few cooks and domestic servants.**

**But the African people and their liberation movement have shown the utmost restraint and attachment to humanism in refusing to meet terrorism with terrorism.**

**They suffered because they are struggling for the principle that South Africa belongs to all the people who live in it, be black, white or brown.**

**Their struggle is a struggle for all men and women, for survival of whites as much as of the freedom of the blacks."**

**These words were spoken by the Chairman of the Special Committee against Apartheid, Mr Edwin Ogebe Ogbu (Nigerian), at a meeting of the Anti-Apartheid Committee of New Zealand, held at Victoria University in Wellington on 13 September 1974**

**I was thinking back on the long road to Freedom that we walked and remembered how impressed I was that the Mass Democratic Movement was held in high esteem by the United Nations especially when they were declared the true representatives of our people as a liberation movement.**

**The same applies today as we chart a way forward in the new struggle to unbundled chains of misery and poverty amongst our people, the true representative of the aspirations of our people, black and white, is indeed or shall I say, still, is the Mass Democratic Movement.**

**This Annual Performance Report, which gives an account of the developmental progress report for the financial year ending 2006/2007, takes place at a time when the country celebrates its 14<sup>th</sup> year into the new democratic dispensation.**


The past financial year has seen efforts by the Municipality in harnessing the mood of our economy and in addressing the challenges that were identified during the previous years.

- To improve the current payment level so that we can build a financially sound municipality as much has been achieved in setting the municipality on the right footing and much more needs to be done.
- To improve service delivery, the municipality is operating under difficult economic conditions where many residents are unemployed. Nevertheless, we have been able to provide basic services to all our communities where possible and further improvements had been undertaken as well as new services to new developed areas.
- The recent developments in customer satisfaction is the quality of service we are supposed to provide that will build a lasting relationship and one must note that challenges are still there and we will continue to strive for better service delivery.
- We committed ourselves to improve maintenance of infrastructure and development thereof. Indeed, we have seen sewerage and water pipes being replaced. Though, there are roads and streets that had improved and others need to be attended to.
- This commitment will continue and will improve, but one does not want to underestimate the backlog that we are facing in infrastructure maintenance and development.
- One must also commend the National and Provincial Departments for the continued investment in infrastructure development in our area
- The municipality will under these trying economic conditions continue side by side with our communities to speed up changes, fight poverty and create a better life for all.
- In the coming financial year we will be building on what we have already laid as a foundation and the departments will be more organized than before to meet the challenges.

This Annual Report will give an accurate and updated progress in our Endeavour to address challenges that we have identified as our key socio-economic priorities to make the municipality a better place to live in.

Lastly it will give an exact and clear account of the achievements and challenges that we have to overcome as a municipality in addressing the above mentioned priorities that we have set ourselves to achieve in this municipality.

I therefore would like to commend the political leadership, management, staff and members of the community of Kopanong Local Municipality and all relevant stakeholders who participated in all our developmental processes.

  
VI JONAS  
MAYOR



OLD BARN IN THE AREA

## EXECUTIVE SUMMARY – MUNICIPAL MANAGER



According to the Municipal Structures Act, Act No. 117,1998 the primary purpose of the municipality is:

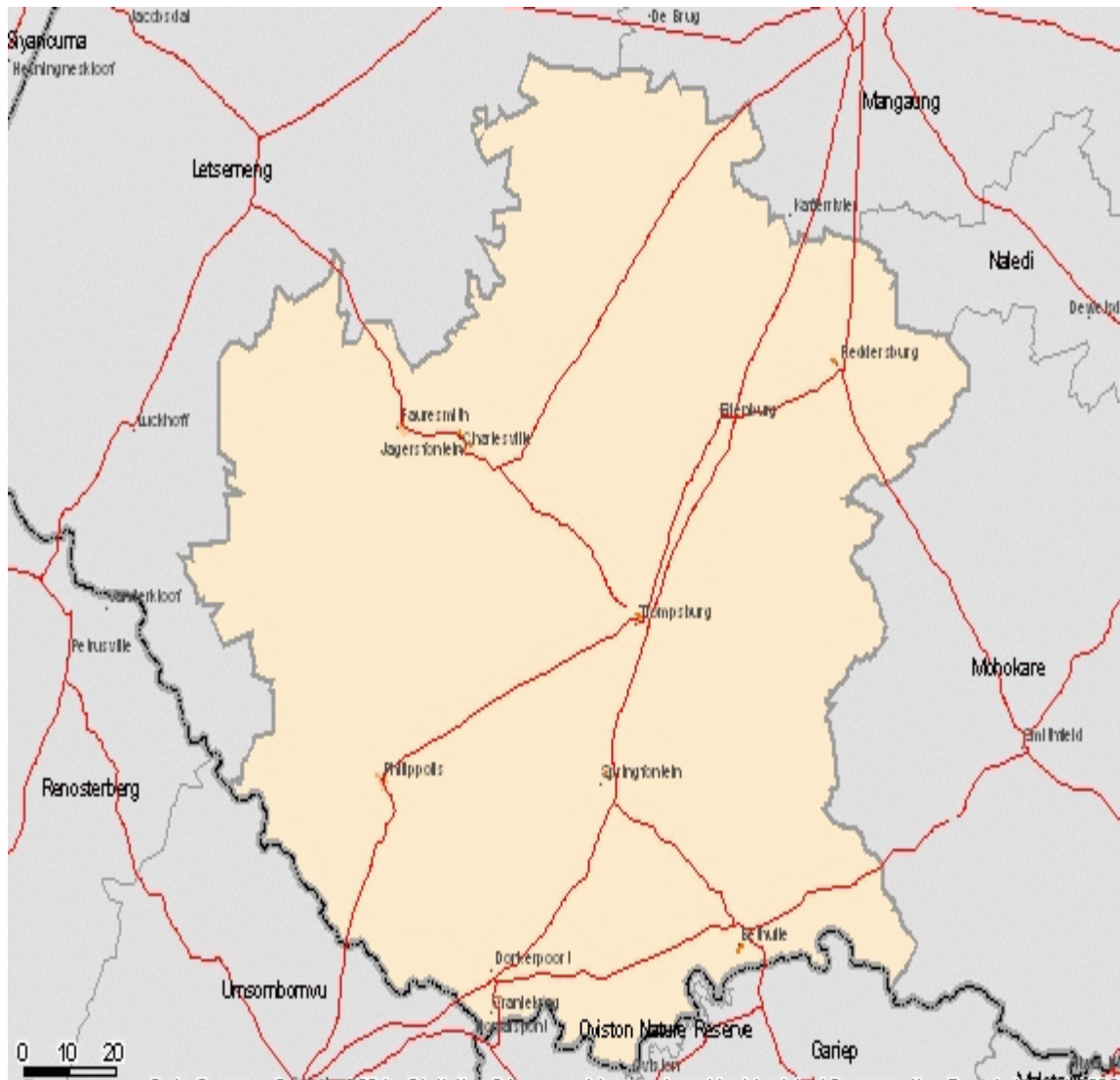
1. A municipal council must strive within its capacity to achieve the objectives set out in section 152 of the Constitution,
2. A municipal council must annually review
  - (a) *the needs of the community;*
  - (b) *its priorities to meet those needs;*
  - (c) *its process for involving the community;*
  - (d) *its organizational and delivery mechanisms for meeting the needs of the community; and*
  - (e) *its overall performance in achieving the objectives referred to in subsection (1)*
3. A municipal council must develop mechanisms to consult the community and community organizations in performing its functions and exercising its powers.

The reality is that the municipality, according to the Constitution of RSA, must amongst others provide sustainable services to its community. However, given the dire financial position of Kopanong Local Municipality it becomes a challenge to meet this objective unless we receive financial assistance from the Free State Provincial Government.

Kopanong Local Municipality is one of the first municipalities that were identified by the Department of Provincial and Local Government to benefit from Project Consolidate, with this program in place the municipality has managed to identify and prioritize all challenges faced by it and thereafter put systems in place, and compiled a Strategic Plan for management.

In a quest to meet the developmental objectives of the municipality, Local Economic Development Strategy is being reviewed with the assistance of a USAID program which also extends assistance on financial viability and Performance Management System.

As far as Financial Management is concerned, Kopanong Local Municipality not only adopted all financial policies together with the budget, but also compiled financial statements internally therefore the municipality complies with relevant financial legislation.



**MAP OF KOPANONG LOCAL MUNICIPALITY**



## CHAPTER ONE

### KOPANONG LOCAL MUNICIPALITY: The Broader Context

Kopanong Municipality area covers 15247 square kilometers and is represented as a grouping of urban and rural areas, which stretches from Bethulie in the South East to Fauresmith in the North West. The new municipal area was formed in the year 2000 by the integration of Fauresmith, Jagersfontein, Edenburg, Trompsburg, Springfontein, Philipollis, Gariep Dam, Reddersburg, Bethulie and all the rural areas between these towns. These towns are mostly rural towns that serve the large farming activities in the area. Jagersfontein is also known for its diamond mine and Gariep Dam as a tourist destiny. The town is situated next to the Gariep Dam, which is the largest dam in South Africa. Kopanong is situated in the southern part of the Free State Province and the climate is very hot in the summer and very cold in the winter. The area is mostly dry and therefore most farmers farm with sheep.

There are no industries in the area and therefore the area is very poor with a large unemployment rate.

About 61 696 people lives in Kopanong of which 9 713 **households** is indigent or poor people. As a consequence, the gross geographic product is substantially less than the national average.



**SHEEP FARMING IN THE AREA**



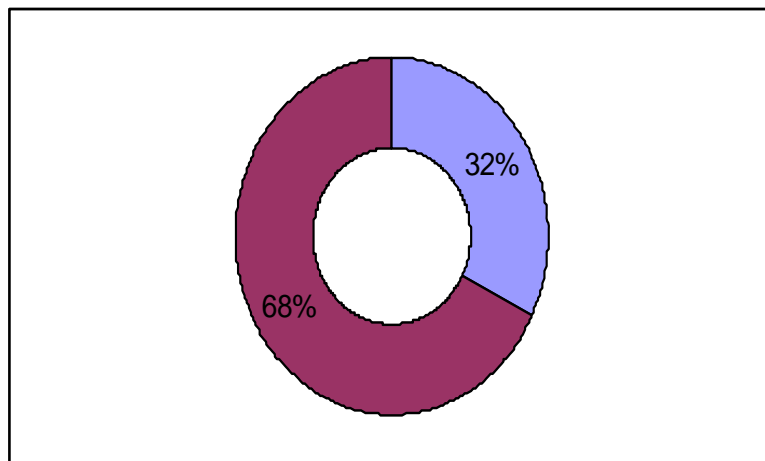
**DIAMOND MINE IN JAGERSFONTEIN**

**TABLE 1: Key Statistics**

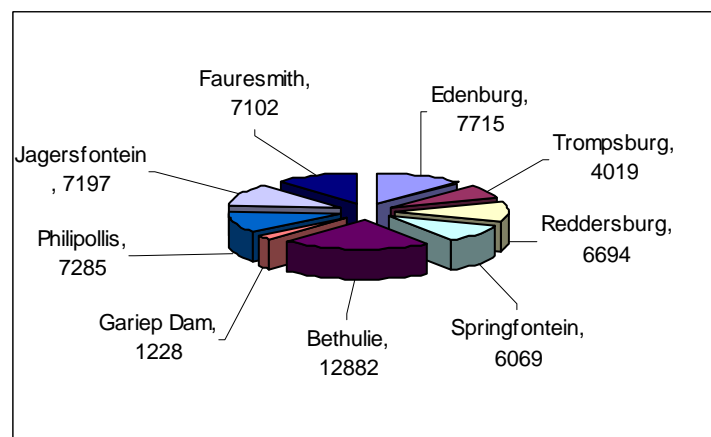
**Kopanong Local Municipality**

FACTOR	NUMBER
Population (Census 2001 adjusted)	61 696
Indigent Households	9 713
Surface area	15247 km2
Unemployment Rate	32.15%

**Unemployment Rate**

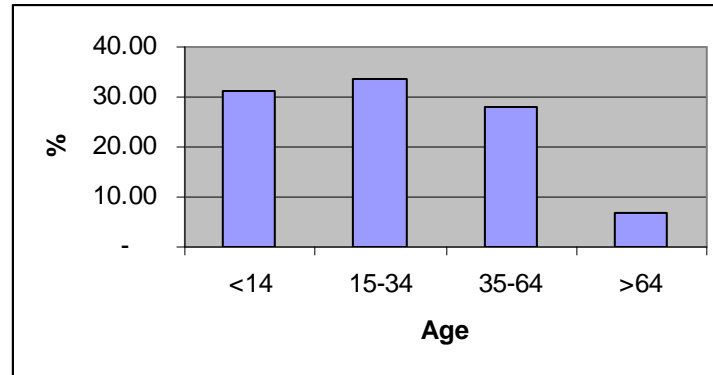


**POPULATION DISTRIBUTION**



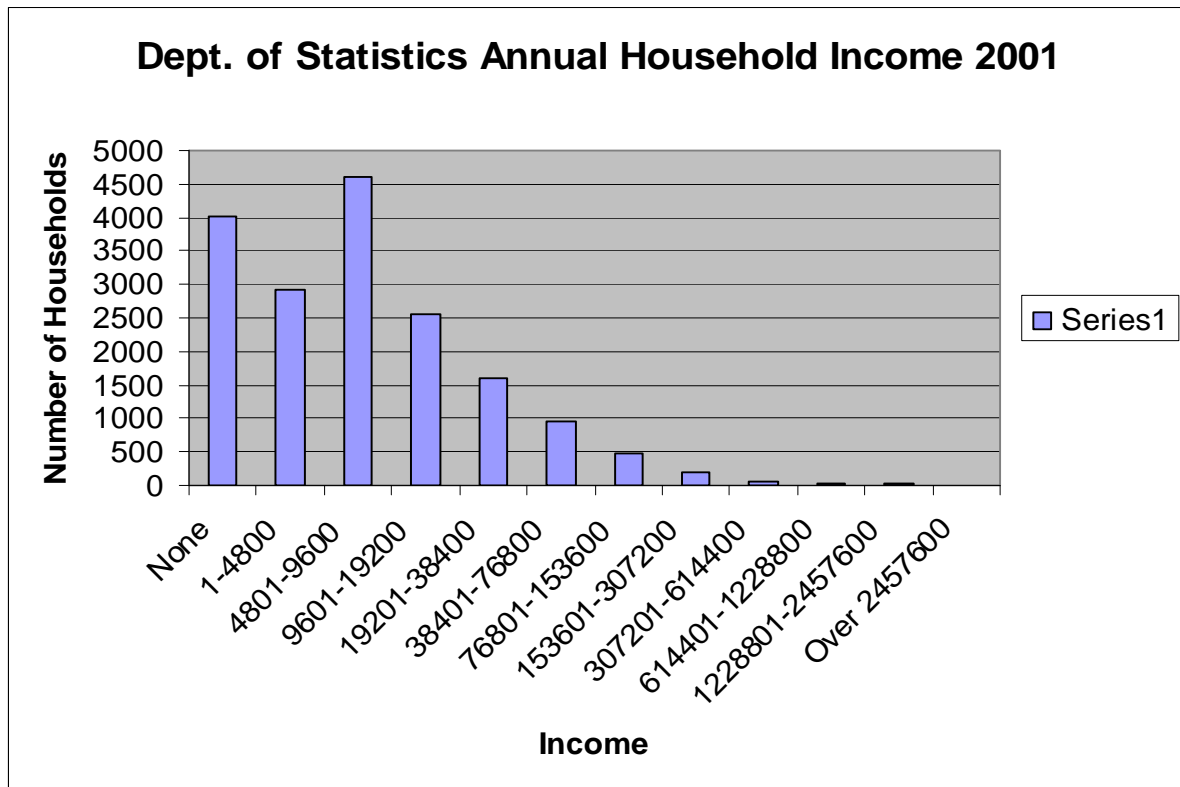
**TABLE 2: Demographic Indicators of the Population of Kopanong**

Age	%<14	%15-34	%35-64	%>65
Census 2001	31.40	33.63	28.14	6.84



31.4 % of the population of Kopanong is 14 years of age or younger and in total 93.16 % of the population is people who are still in school or economic active. This will have a huge pressure on education and job creation.

The following graph displays the income levels of the people living in Kopanong as received from the 2001 Census:



## KOPANONG LOCAL MUNICIPALITY: Economy

The Free State Province is the third largest province in land area in South Africa and it covers some 129 480 square kilometers. The province has the second smallest population in South Africa, roughly 2.7 million people which are 6.66% of South Africa's 40.5 million People.

Within the Free State Province context the area within the jurisdiction of Kopanong contributes mostly in the form of agriculture. The main farming in the area is sheep farming although game farming is increasing.

In Kopanong 56% of the household's monthly income is below R 1 100.00 per month and 80.63% of the households in Kopanong are earning less than the household subsistence level (+ R1 500 per month).

The main reason for this is that there are no industries or large businesses in the area and most people work on the farms or in private houses.

## KOPANONG LOCAL MUNICIPALITY: Human Capacity Development

As has been seen previously 31.4% of the population of Kopanong is below the age of 14 years and therefore education will have to play a large role in the future. The current status regarding facilities is as follow:

**TABLE 3: Education Facilities**

Town	Crèches	Primary	Combined	Secondary
Edenburg	4	2	1	1
Trompsburg	3	3	0	1
Reddersburg	3	1	0	2
Springfontein	2	2	0	1
Bethulie	3	1	1	1
Gariep Dam	1	1	0	0
Philipolis	2	2	1	1
Jagersfontein	4	2	0	1
Fauresmith	4	2	1	1
<b>Total</b>	<b>26</b>	<b>16</b>	<b>4</b>	<b>9</b>

## KOPANONG LOCAL MUNICIPALITY: Health and Safety

Kopanong's social problems include ill health, which is linked to poverty and poor living conditions. Population estimates for the Kopanong area will show dramatic changes within the next 10 – 12 years because of the high HIV/AIDS component. According to a study done by the Rhodes University the annual growth rate will decrease from 3.87% in 2001 to 1.77% in 2011 and to 0.28% in 2021. It has therefore become essential for the municipality to consider becoming properly conversant with the HIV/AIDS pandemic, and its negative impact on population growth and to ensure that proactive measures are taken with regard to social support services such as clinics, orphanages, awareness campaigns and other ways to tackle the health issues.

## KOPANONG LOCAL MUNICIPALITY: Infrastructure and Basic Services

The infrastructure in Kopanong is not in a good standard due to very little maintenance. This was caused by the cash flow situation of the municipality and also that there was no maintenance plan. Although the maintenance has improved during the year under review, it is still not up to standard. The municipality will address this problem in future budgets.

## KOPANONG LOCAL MUNICIPALITY: Social Capital

Social networks including community groups, extended families and traditional structures are important for people to sustain their livelihoods, particular poor people. These networks are vital building blocks that help build community cohesion and resilience. For the population of Kopanong there exists a number of these structures in which the population can take part, such structures are churches, choirs and religious clubs, political parties, burial societies, sport clubs, etc.

### **KOPANONG LOCAL MUNICIPALITY: Natural Resources & its Environment**

Kopanong covers over 15 247 square kilometers, comprising of nine towns with surrounding rural areas. There are no large-scale environment problems at present however the main environment threats are as follows:

- Pollution – In door quality in some dwellings that are not well ventilated and where wood and paraffin is used as source of fuel.
- Urbanisation has resulted in human settlement patterns far from economic opportunities.
- Increase demand and lack of access to resources.
- The impact of HIV/AIDS and poverty.



**BRIDGE OVER ORANGE RIVER - BETHULIE**



REDDERSBURG TOWN HALL

## **CHAPTER TWO**

### **Kopanong Local Municipality: Towards Effective Service Delivery And Sound Financial Management**

The Local Government Election of 5 December 2000 ushered the Municipalities in new era of developmental mode. This final transformation stage presented a number of enormous challenges. The Municipality had to deal with a phethora of issues. It had to amalgamate 9 towns administration viz. Bethulie, Edenburg, Fauresmith, Gariep Dam, Jagersfontein, Philipollis, Reddersburg, Springfontein and Trompsburg.

Although this was a tremendous task, the municipality had succeeded into transforming all the administrations in one, except for the following few challenges:

#### **Asset Register**

An asset register had now been compiled and for the first time the municipality has got an official asset register. There is however still some work to be done on the asset register.

#### **Rationalization Of The Human Resource**

The municipality has completed the job evaluation process to ensure that all staff in the same positions is on the same salary scales. The municipality is now awaiting the results of the Job Evaluation Committee.

The municipality has also succeeded in entering repayment agreements with the pension funds of employees and they have now started to pay out the pension of employees that must retired or are medical unfit for duty. This will improve the productivity of the municipality as younger workers can now be employed. The municipality has also started to pay the gross salaries since March 2007.

#### **Institutional Transformation**

The municipality had succeeded into reviewing the IDP successful with the help of consultants. The fourth annual Performance Management Report had also been completed and the municipality has also completed a review of the PMS to improve on the targets during 2006/07.

The municipality's budget had been changed to ensure that it is in the new format and that it is based on cash as prescribed by the MFMA. The financial statements and the budget were also completed in house for the third time.

#### **Key Challenges Facing The Municipality**

Kopanong Local Municipality's economy is very weak with only agricultural activities as its main economic activity. Currently the unemployment rate stands at 32% in terms of the 2001 census. The above factors place a large task on the Municipality to revive its economy in order to create job opportunities. The key challenges for the municipality are:

- To develop a coherent local economic development strategy to create job opportunities.
- To ensure sustainability of the Municipality through sound administration and financial management.
- Deepening participatory democracy and good governance.
- To enhance effective service delivery to the community.



**GARIEP DAM**



## CHAPTER THREE

### KOPANONG LOCAL MUNICIPALITY: Executive and Council Structure

#### **MUNICIPAL COUNCIL**

7 Ward Councilors  
7 Party Representatives  
14 Councilors

Speaker chairs  
council meetings

7 Ward  
Committees

#### **EXECUTIVE COMMITTEE**

Mayor  
2 Councilors

3 Section 80 Committees

Chaired by Mayor



V I Jonas  
Mayor – Chairperson Executive Committee



Councilor H M Hagemann  
Executive Committee Member



Councilor M E Maema  
Executive Committee Member

Function:		Kopanong Executive Committee and Council	
REPORTING LEVEL	DETAIL		
Overview:	The three Executive Committee Members were each assigned a portfolio committee established in terms of Section 80 of the Structures Act, consisting of Councilors representing various political parties in Council. Section 80 Committees were expected to meet regularly and discuss those matters referred to them by the Management and the Executive Committee to provide advice and recommendations for the Executive Committee to exercise those powers delegated to the Executive Committee by the Council or for the Executive Committee to make further recommendations to the Council on those matters where the delegated powers vest with the Council.		
Function:	The function of the Executive Committee and Council of the Kopanong Local Municipality is administered as follows and includes:		
	<p>Ward Committees:</p> <p>Their primary role is to identify development priorities of their communities and make recommendations to Council through the ward councilor, who is the chairperson. In this way, ward committees enhance community's aspirations and hopes. They also serve as grass root governance tools for deepening local democracy and empowering the people.</p>		
Analysis:	<p>Distribution of Seats in the Kopanong Municipal Council:</p> <p>African National Congress (ANC) 11  Democratic Alliance (DA) 2  Pan African Congress (PAC) 1</p> <p><b>Councilor Details:</b>  Total number of Councilors 14  Number of Councilors on Executive Committee 3</p> <p><b>Ward Details:</b>  Total number of Wards 7</p> <p><b>Type of Council and Committee Meetings</b>  Executive Committee meetings  Financial Committee meetings  Institutional Transformation Committee meetings  Infrastructure, Technical &amp; Community Committee meetings  Ordinary Council meetings  Special Council meetings</p>		

## CHAPTER FOUR

### Kopanong Municipality: Vision And Strategic Plan

#### Vision:

**By 2020 Kopanong shall be a wealthy and successful municipality that provides excellent, sustainable and affordable services and which governs the area in a participatory, democratic and accountable manner**

#### Strategic Plan:

- Optimise Revenue Collection
  - Work towards a 90% payment rate and have all ward councillors involve in process.
  - Decentralization of credit control.
  - Solving of 90% account queries.
  - Have structured system / unit to deal with account queries.
  - Optimised knowledge of the financial system
- Improve Expenditure Control
  - Compile a proper expenditure control system.
  - Establish and differentiate between small and other creditors and draw up payment schedule.
  - Ensure that an electronic version of the creditors list is compiled
  - All personnel to be trained by 30 October 2006.
- Addressing problems experienced with outstanding arrear creditors
  - New structured repayment schedule
  - Budget for arrear amounts and use funds from cash flow if necessary
  - To have cash management system operational by October 2006
  - Have CFO, FM and Expenditure Accountant trained by October 2006
- Sound Internal Control Systems
  - Conduct risks management assessment
  - Compile assessment report and use results to design policies to assist with management controls
  - Develop incentive scheme.
  - Develop training program how staff training will be conducted.

- Compliance with the MFMA
  - Identify all outstanding areas which still need attention and draw up report
  - Prioritize phased in reaction and ensure that counter mechanisms are put in place
  - Use prioritized report and inducts ward councilors, CDW's and ward committees on content
  - Implement 100% of the MFMA
  - Train 100% of finance personnel on MFMA
- Update Asset Management Controls
  - Ensure that new assets and inventory registers are 100% correct
  - Update the current asset management asset policy to be workable
  - Ensure full maintenance on 100% of service delivery assets
  - Approved assets management plan
- Provision for bad debt
  - Increase bad debt provision to 50% of outstanding debtors
  - Increase payment rate to 95%
  - Ensure that all indigents are registered and their debt is written off.
  - Train 5% of the financial personnel in the legal process of debt collection.
- Implementation Of Communication Strategy
  - To have structured line of communication in the municipality
  - To ensure that all the necessary information concerning our clients is disseminated and communicated timeously
  - Develop integrated communication strategy with Wireless connections
- Development Of Integrated Human Resources Management Strategy
  - Human resources manual with different set of policies
  - Have structured policies indicating inter-relationship between departments.
  - Train all staff members on new policies
- To Establish A Safe Working Environment Through The Effective Implementation Of The Health And Safety Legislation And Guidelines
  - 100% compliance with the occupational Health and Safety Act
  - Reduction of injuries
  - Decrease in absenteeism and reduction in staff
  - To train 100 employees on first aid and 30 safety reps

- Revision Of Employment Equity Approach And Implementation
  - Conduct analysis on the act and regulations to be determine organizational readiness
  - To get Employment equity representative forum operational
  - Develop Employment Equity Plan which is fully compliant
  - Have 100% of staff to be trained
- Implementation Of The HIV/AIDS Strategy
  - Appoint service provider to conduct risk assessment
  - Identify team members in consultation with relevant HOD's and unit Manager who will act as peer educator
  - To have 100% training of staff and councilors
- Delegation Of Powers
  - 100% consistency in finance control
  - Have powers delegated to the relevant levels
  - Develop draft system
  - Develop training program for relevant staff members
- Reconstructed Of Integrated Development Planning Process
  - To have adequate budget priorities
  - To have formal public participation
  - To have consultative IDP Forum
  - Develop training program
- Enhancement Of Performance Management System
  - To have draft PMS fully operational
  - Have steering committee in place
  - To have Audit committee in place
  - Have councilors, audit committee members and staff trained on new system
- Implementation Of Led – Strategy
  - To have approved LED strategy in place
  - Engage in job –intensive / program's in line with EPWP. Establish inventory of open land
  - Additional personnel in the LED – unit
  - Develop training program

- Attracting Of Investors
  - Have framework to attract investment
  - Formation of local business forum
  - Training of councilors and staff on new policy
- Explore Tourism Potential
  - To budget and explore means to source funding
  - Have stakeholders forum
  - Have tourism strategy in place
- The Promotion Of Emerging Farmers
  - To budget and explore means to source funding
  - Have consultation forum in place
  - Draft policy framework which deals with emerging farmers
- Eradication Of Facilities
  - 100% of households should have access to sanitation by December 2007.
  - Have new system fully operational.
  - Ensure all relevant staff has been trained.
- Provision Of Houses In Order To Replace Temporary Housing Structures In Line With Governments Housing Strategy
  - To ensure 5000 housing backlog is addressed
  - To reached 75% by September 2007
  - Develop needs based training program
- Improvement Of Water Quality To All Households
  - To conduct feasibility study and utilize R20m from MIG for project
  - To have 100% access to quality drinking water
  - Implementation of new systems for water monitoring
- Improvement And Upgrading Of Cemeteries
  - To have five more cemeteries developed
  - To ensure 100% satisfaction amongst residents
  - Develop training program
- Eradication Of Storm Water Problems
  - All drainage needs to be upgrade
  - Improved systems and develop maintenance plans.

- Upholding And Management Of Safety Standards
  - 100% compliance of legislation by 2006
  - To ensure that all road users are satisfied
  - Make provision for the acquisition of all necessary materials.
  - Establishment of safety committees
- Revisit And Update Of By-Laws
  - To develop bylaws and ensure adoption by council
  - Change negative perception to positive one
- Development Of A Disaster Management Plan
  - Need to have disaster management plan
  - Decrease risk factor to reasonable levels
  - 100% to training of staff on new plan



Houses in the area



## CHAPTER FIVE

### KOPANONG LOCAL MUNICIPALITY: Administrative Structure

The Kopanong municipal administration has been organised into 4 main departments. Each of the departments including the municipal manager's office contains a set of operational divisions. Service plans are developed by each department to ensure quality and effective delivery. The management team's mission is to oversee, coordinate and manage the transformation and strategic agenda of the municipality as well as facilitate the transformation process by providing strategic advice and project support to the Municipal Manager, Executive Committee and Council.



T S Mantshiyane Municipal Manager



M W Mphikeleli  
Director: Finance



N Haya  
Director: Corporate



M Ntwanambi  
Director: Community



P M Makau  
Director: Technical

## OFFICE OF THE MUNICIPAL MANAGER

### MUNICIPAL MANAGER

Integrated Development plan	Performance Management	Internal Audit
Community Participatory	Transformation	Local Economic Development



TS Mantshiyane – Municipal Manager

<b>DEPARTMENT</b>	<p>The following divisions are managed by the Municipal Manager</p> <ul style="list-style-type: none"> <li>• Integrated Development Plan</li> <li>• Performance Management</li> <li>• Sustainable Development</li> <li>• Local Economic Development</li> <li>• Transformation</li> </ul>	
<b>FOCUS</b>	<p>The primary focus of the department is:</p> <ul style="list-style-type: none"> <li>• To give priority to the basic needs of the community.</li> <li>• To promote social and economic development of the community.</li> <li>• To participate in provincial and provincial and national programs.</li> <li>• To structure and manage its administrative budgeting and planning.</li> </ul>	

## **THE YEAR UNDER REVIEW**

In an endeavor to comply with the challenges of the developmental local government the Municipality had to re-orientate its systems, organisational structure, planning and the Human Resources.

### **Integrated Development Plan**

The Integrated Development Plan was successfully reviewed in the year under review. However it needs to be pointed out that owing to the financial position of the Council almost 95% were largely finance from external sources. Despite that fact some programs as identified in the IDP for that year were successfully completed.

### **Performance Management System**

The Municipal Systems Act of 2000 requires municipalities to measure its performance by formulating a Performance Management System. The 2006/2007 financial year's results had been measured and the results are part of this report.

### **Local Economic Development**

As earlier indicated in the report the Kopanong Local Municipality's economy is relying on the agricultural activity and the Municipality had to focus on this. The LED unit was established and a LED Officer was appointed. In order to develop the economy the unit embarked on the development of a LED Strategy. There are currently three LED Projects running and the projects are financed through grants from the National Local Economy Development Fund.

The infrastructure programmes also plays a role in the LED as it is creating job opportunities.

### **Transformation**

The Council has drastically transformed the institution's top structure and senior management to ensure efficient and effective service delivery.

Effective governance was also approved by compiling and implementing important policies. Examples of policies implemented are Indigent Policy which includes free basic services, Procurement Policy, Credit Control Policy, Tariff Policy, etc.

The municipality has also embarks on the process of compiling all relevant by-laws, although the process will only be completed in the next financial year.

The municipality has also through the implementation of systems and the above policies ensured that it comply with all legislation as far as possible.

### **Community Participation**

The municipality has established ward committees in all wards and all the members of these committees were trained in their responsibilities and the functioning of these committees. Although the committees did hold meetings throughout the financial year, the effectiveness of some of these meetings is still not very good.

An IDP Forum has been established and it is functioning effective.

The Council also held a large number of community meetings during the budget process to ensure that full community participation has been obtained in compiling the operational and capital budgets.

## **Challenges**

The municipality still faces the following challenges in the Offices of the Municipal Manager

### **Integrated Development Plan**

The major challenge in ensuring a realistic IDP is the lack of funds to finance all the projects identified by the community and prioritised by the Council. The municipality is currently relying 100 % on grant funding to do capital projects and these grant funds are limited. The municipality's IDP and Capital Budget are therefore under large pressure.

### **Performance Management System**

The system is in place and is currently under review. The main challenge is to implement the system in such a way that reports can be compiled within 21 days after the end of each quarter.

### **Local Economical Development**

The implementation of projects is slow due to a lack of funds and another big challenge is to ensure that all projects that are done will be sustainable to ensure that the aim of improving the local economy is reached.

**The municipality is working on all the above challenges to try and overcome it within the 2007/2008 financial year.**

## CORPORATE SERVICE



N Haya – Head: Corporate Service

	The Department of Corporate Services comprise of the following divisions.	
<b>HUMAN RESOURCES</b> Personnel and Organisational development		<b>ADMINISTRTION</b> Auxilliary services Adminstrative and Council Support
<b>FOCUS</b> <ul style="list-style-type: none"> <li>The effective management of human resources in order to ensure the transformation of skills development, employment equity and performance appraisal.</li> <li>Provision of strategic human resources support to all Council business functions, people development and to ensure the maintenance of sound labour relations.</li> </ul>	<p>Ensure that the software utilised to support the transformation process complies with acceptable standards and regulations.</p> <p>The effective management of an administration system that is efficient and facilitates decision making and service delivery throughout Kopanong</p>	<p>Provides administrative, logistical, operative, telecommunications management.</p> <p>Manage the Corporative Services budget so that income and expenditure is in line with Council's requirements. Provide strategic advice, information and support.</p>

## **THE YEAR UNDER REVIEW:**

### **Background**

During the 2006/07 financial year, the municipality focused much of its energy in ensuring that the organizational structure as approved by the council is fully implemented so as to ensure smooth running of the administration.

The council took a resolution to freeze all vacant positions due to the negative cash flow, but also made a provision that all the key vacant positions be filled internally, allowing the Accounting Officer to appoint employees to act in those vacant positions.

### **Challenges:**

For the year under review, this municipality had to deal with the following challenges:

- Finalising issues relating to organisational restructuring
- Development of internal capacity
- Development of Human Resource and other related policies and by-laws
- Improving labour relations in the workplace
- Ensuring and promoting maximum public participation
- Implementation of SDP vs. negative cash flow and the impact thereof
- Implementation of the Performance Management and Performance Appraisal Systems
- Implementation of the Employment Equity Plan

### **Effective Administration and labour relations**

The department has implemented a number of systems to increase the effectiveness in the administration, of which the following can serve as examples:

The telephone system that has been implemented and controls thereof has shown to be effective as the municipality is able to recover all costs incurred by employees on private calls.

New computers were obtained to ensure an increase in productivity and also to save on the enormous repair costs.

The personnel taking minutes at meetings had been capacitated in house to ensure that there is increased efficiency in the manner in which these meetings are conducted.

The Executive Committee meetings and Council meetings are held regularly. The council has also reestablished the Section 80 Committees and since then they are fully functional and effective as well.

There are two representative unions in the municipality, ie. South African Municipal Workers Union (SAMWU) and Independent Municipal and Allied Trade Union (IMATU), and management is having good relations with the two. The meetings of the Local Labour Forum are held, though not regularly in terms of the Collective Agreement, ie. Organisational Rights Agreement.

## **Skills Development Plan**

A skills audit, which is necessary to identify the training needs for all municipal employees and councilors, was conducted at the Head Office and to all Units as a requirement for the compilation of the Workplace Skills Plan (WSP). The WSP for the year under review was then presented to the training committee before it was presented to the council for approval.

The WSP was also, as a legislative requirement, submitted to the Local Government Sector Training Authority (LGSETA) by the due date of 30<sup>th</sup> June. It is also implemented within a limited budget of R250 000.00, but, to ensure that there is ongoing training, other trainings are provided through other funds/grants like the Municipal Finance Grant (FMG) and organisations like SALGA and, in an attempt to save costs, other trainings were conducted in-house.

The Quarterly Monitoring Reports and the Annual Training report for 2006/7 were submitted to LGSETA.

## **Learner ships**

LGSETA approved two (2) learner ship programs for the municipality; ie. Local Economic Development (LED) and Water Purification learner ship. Twenty (20) unemployed learners within the jurisdiction of Kopanong were nominated to enroll for the LED learner ship program which commenced in August 2006. By the time of compiling this report these learners were just awaiting graduation which was scheduled to take place during March 2008.

The Water Purification learner ship program is facilitated through the District Municipality and has commenced in August 2007. Twenty (20) learners within the jurisdiction of the municipality will attend the learner ship. Out of the twenty learners seven (7) are employees of Kopanong municipality and thirteen (13) are unemployed. The program will run for twelve (12) months; due for completion by July 2008.

## **Employment Equity Plan**

The municipality has an approved EEP. The plan was presented to the training committee as well as the Local Labour Forum before it was approved by the council.

We are trying our level best to fill the gaps in terms of employment equity as identified in the plan and hopefully that will be achieved by the targeted date of 2009.

## **Communication Strategy and Customer Care**

The Communication Officer is responsible for the implementation of the Communication Strategy and issues related to Customer Care; and a Customer Care Plan has been developed in line with the Communication Strategy. A committee was also established to deal with all customer queries and complaints so as to improve the quality of service.

Workshops have been conducted to ensure that all stakeholders understand the strategy and to ensure smooth implementation thereof. The Communication officer is attending workshops and training from time to time to build capacity.

## **Ward and Participatory System**

Ward Committees are functioning and meetings are held at regular intervals. Although these committees have been trained, further training needs to be given to ensure that they understand their role better and this will improve the effectiveness of the committees.

During the year under discussion the community was very involved in the budget and IDP processes.

The municipality has also, with the assistance of consultants, developed a public participation program to further enhance public participation and it has been effective.

## **Computerised Human Resource System**

This system is linked to the financial system which implies that it is fully integrated. The human resource personnel is attending trainings on the system from time to time so as to ensure that they understand all the modules and the system is effectively utilised .

## **Record Keeping / Archives**

The municipality is still running a manual system and is not effective due to the large volumes of paperwork handled and very limited space available for safe-keeping of documents.

The municipality is currently looking at other options of obtaining funding to procure the Electronic Archive System whilst on the other hand trying to check another safe storage place.

## **Policies and by-laws**

Council has approved the following policies and are fully operational:

- HR Policy, which deals with issues relating to leave, working hours, etc.
- PMS, which by the time of compiling this report is to be reviewed.
- The Access to Information policy.
- HIV/AIDS strategy
- Integrated Health and Safety Strategy

The municipality has also appointed consultants to assist in the development of by-laws. An advertisement has already been placed for public comment. In terms of the work program that they have drafted in consultation with the municipality this process should be finalized by the first week of December.

**The department has developed implementation plans for the human resource policy in line with the human resource charter, the HIV/AIDS strategy and Integrated Health and Safety System with the aim of overcoming all its challenges and ensuring legal compliance in all areas.**



## TECHNICAL SERVICES



PM Makau Head: Technical Services

	<p><b>The Technical Department comprises of the following divisions:</b></p> <p>Project Management Vehicles and Equipment Maintenance Stores Housing Matters</p>	
<b>FOCUS</b>	<p><b>CORE BUSINESS</b></p> <p><b>Management of all Capital projects</b></p> <p><b>Maintenance of all vehicles and Equipment</b></p> <p><b>Management of the Stores Section</b></p> <p><b>Management of all Housing matters</b></p>	

## **THE YEAR UNDER REVIEW:**

### **Service Delivery: Technical Department**

Kopanong Local Municipality completed the following projects during the 2006/2007 financial year:

#### **Water**

The following projects were completed in the 2006/2007 financial year:

- An amount of R 1393 911 was spend on installing of new water filters in Jagersfontein
- Jagersfontein and Fauresmith water pipeline at a cost of R 11 400 701

#### **Erven**

The following projects were completed in the 2006/2007 financial year:

R 226 632 was spent on the development of new erven in the Kopanong area.

#### **Roads and Storm Water**

The following projects were completed in the 2006/2007 financial year:

- The entrance road to Reddersburg was upgraded at a cost of R 869 383.
- The entrance road to Bethulie was upgraded at a cost of R 890 917.

#### **Sewerage**

The following projects were completed in the 2006/2007 financial year:

- Bucket eradication projects in all area of Kopanong at a cost of R 10 783 113
- Bethulie waterborne sewerage at a cost of R 1 639 324

#### **Electricity**

The following projects had been completed in the 2006/2007 financial year:

- Upgrading of bulk Kva in Jagersfontein at a cost of R 143 016
- Electrification and Connections at a cost of R 1 711 990

#### **Challenges**

The biggest challenge that this department faces is a lack of funding. Very limited internal capital is available and therefore this department must rely on grant funding for capital projects. The challenge is therefore to lobby for grants as far as possible.

## COMMUNITY SERVICES



M Ntwanambi Head: Community Services

	<p><b>The Technical Department comprises of the following divisions:</b></p> <p>Water Sewerage Roads Parks Cemeteries Refuse Removal Maintenance of Assets</p>	
<b>FOCUS</b>	<p><b>CORE BUSINESS</b></p> <p><b>Water – Operation and maintenance of internal reticulation.</b></p> <p><b>Sanitation – Operation and maintenance of sewerage purification works. Management of sewerage reticulation system.</b></p> <p><b>Roads &amp; Storm water – Maintenance of roads and storm water.</b></p> <p><b>Parks – Maintenance of all the parks</b></p> <p><b>Cemeteries – Management of cemeteries and maintenance.</b></p> <p><b>Refuse Removal – Operation of a refuse removal system.</b></p> <p><b>Electricity – Bloem Electrical</b></p> <p><b>Maintaining of all Assets</b></p>	

## **Annual report for community services**

### **Buildings, roads and storm water**

Regular maintenance of municipal buildings was done but was not completely done because there is an initiative to renovate the all municipal buildings but due to cash flow problems the initiative is still outstanding and will be started when there is enough funds.

Roads that are properly maintained are only tarred roads because they are easily maintained with regard to street signs, refilling of potholes in tarred roads and parking signs but graveled roads were not properly maintained hence there was a project of grading streets that started in Edenburg and stopped due to serious cash flow problems however there are plans in place to also accommodate all other units that has not yet been graded.

Regular maintenance of storm water was done regularly were there is storm water drainage but still the storm water drainage need to be upgraded and also developed to newly developed sites hence we have new developed sites.

### **Parks and Cemeteries**

Cemeteries were not all properly maintained because in some of our unit there is a serious shortage of personnel therefore it not easy to execute some of the task that are supposed to be done like maintaining the cemeteries.

There is also an initiative of fencing cemeteries but due to financial problems this project could not start but the project is on the pipe line.

There was also new identified sites for cemeteries that are full even though there is a legal route that need to be followed therefore the whole process is in progress.

### **Refuse removal**

Refuse were carried out continuously in all areas though in some instances due to mechanical problems of the assigned vehicles this was also provoked by illness and shortage of staff.

The municipality identified the problem with regard to refuse removal and then purchase 4 vehicles to assist in the areas were there was a serious problem of refuse removal.

### **Sewerage**

We had continuous blockages in most all areas but all problems were attended within the required time. And we also noticed that the cause of this problem is the old drainage pipes that need to be replaced.

### **Library Services**

Libraries were fully give a close attention, and with the assistance of the Department of Sports Arts and Culture that managed to provide ICT infrastructure into 2 libraries of our Municipality viz: Bethulie and Trompsburg each with 4 computers, 2 printers and one

Scanner and other areas will be provided in the next financial year of the said Department.

Also with the Assistance of the Department they employed additional Staff into our Libraries viz: Bethulie, Edenburg and Jagersfontein.

There was also proper consultation and communication with regard to the daily running of Libraries.

### **Personnel**

We had a high rate of personnel that are ill in all units and also had high rate of deceased employees more especially Bethulie and Jagersfontein as a result we have shortage of staff in the unit level for service delivery.

### **Landfill sites**

With the assistance of the Department of Environmental Affairs and Tourism we had noticed that we have been complying with Integrated Disposal Site Authorization Procedure.

The DEAT is prepared to assist the municipality to comply and register, as for now they have furnish our office with necessary documentation that will guide in following the right procedure.

## FINANCE SERVICES



MW Mphikeleli – Financial Manager

	<p><b>The Financial Department comprises out of the following divisions:</b></p> <p>Income Expenditure Budget Office Credit Control</p>	
<b>FOCUS</b>	<p>To ensure efficient and effective financial management.</p> <p>Management of assets &amp; liabilities.</p> <p>Management of revenue &amp; expenditure</p> <p>Management of the budget</p> <p>Performance of the Treasury Function</p> <p>Maintenance of internal financial control</p> <p>Management of Financial Administration</p> <p>Risk Management</p> <p>Financial advise to Council, Accounting Officer &amp; Management</p> <p>Consumer Relations</p> <p>Manage &amp; Lead the Financial Directorate</p>	

## **THE YEAR UNDER REVIEW:**

### **Debtors Accounts**

Although the new financial system improved the problems with the accounts and the account runs are now done monthly and on time, there are still problems with individual accounts. Field Workers has been appointed in the new financial year to do a data purification exercise with the help of the Income Section. This resulted in a decrease of audit queries.

### **Capacitating of Financial Personnel**

All the finance personnel attended courses on the new financial system and were therefore capacitated in operating the new financial system.

Finance personnel are also attending external courses where applicable. A need was also identified to do a skills audit of finance personnel to ensure that proper training can be planned and implemented. This process is continuing into the next financial year.

### **Financial Management and Budget Reform Program**

The main aim of the program is to help the Municipality to reform its financial management in such a way that the Municipality should be able to implement the Municipal Financial Management Act at the required deadlines.

Through the program the budget was brought in line with the MFMA and the Municipality has to meet all the conditions of the Financial Management Grant.

Three Interns will be appointed to undergo an internship within the municipality.

### **Free Basic Services**

The Council has developed and implemented an Indigent Policy to ensure that all indigent consumers receive free basic services. The number of registered indigent consumers who is currently receiving free services is 5 359. The free services are as follows:

Electricity:	50 units per month
Water:	6 kiloliters per month (All households)
Sewer:	Free
Refuse Removal:	Free

### **Challenges**

The two biggest challenges for the department are the Debtor's Data Base and Free Basic Electricity.

The data base is still not 100% correct and the municipality has already started with a process to verify and correct the data base.

The role out of free basic electricity is still very slow and the department and the Municipal Manager are in constant contact with the two suppliers of electricity in the area.

# ANNUAL PERFORMANCE REPORT 2006/2007

**Kopanong Local Municipality**



Introduction and overview of the municipality	41 - 47
Service Delivery Objectives	48 - 49
Human Resources	50 - 52
General Key Performance Indicators	53 - 58
Community Services	59 - 64
Corporate Services	65 - 69
Financial Services	70 - 76
Office of the Municipal Manager	77 - 81
Council Functioning	82 - 83
Technical Services	84 - 86
Closing Remarks	87

## Introduction

The Municipal Systems Act, 32 of 2000 states that the results of the performance measurements in terms of section 41(1)(c) must be audited and then the municipality must prepare for each financial year an annual report in terms of Chapter 12 of the Municipal Finance Management Act, 56 of 2003. The annual performance assessment report must be part of the annual report.

The annual performance assessment report must reflect the municipality's and service provider's performance during that financial year in comparison with set targets and performance of the previous year. It should also contain measures that were or are to be taken to improve performance.

The MFMA requires that the municipality must for each financial year prepare an annual report that complies with the requirements as set out in Chapter 12 of the MFMA. The council must within nine months after the end of a financial year deal with the annual report of the municipality. The purpose of an annual report is firstly to provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates. Secondly to provide a report on performance against the budget of the municipality or municipal entity for that financial year and lastly to promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.

In terms of section 121(3)(c) of the MFMA the annual report of the municipality must include amongst other things the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal Systems Act. This report is in response to the requirements of current legislation

## Overview of the Municipality

"Kopanong Local Municipality (KLM) consists of nine former transitional local councils and bulk of the former Southern Free State Transitional Rural Council. The nine former local councils are –

- Bethulie
- Edenburg
- Fauresmith
- Jagersfontein
- Philippolis
- Reddersburg
- Springfontein
- Trompsburg

### • Gariep Dam

The municipal area is 15, 248 square kilometres in extent. The total population amounted to 55,941 persons in 2001 of which 52% were female persons and 48% were male. The total population were organised as 17,630 households with approximately 10,500 households ( $\pm 60\%$ ) residing in the nine urban settlements. The racial composition of the local population was as follows in 2001: African 40,568 persons ( $\pm 72\%$ ), Coloured 9,971 persons ( $\pm 18\%$ ), Asian 23 persons and White 5,397 persons ( $\pm 10\%$ )".

Key statistics regarding the municipality as reflected in the census is shown on the following pages to place the municipality's performance in context.

## Mayors Foreword

It is indeed a great achievement and honor for us as Kopanong Local Municipality to be able to present an Annual Performance Report to our communities and the country in particular in this fashion, way and method. We must always remember that we started along a long road thus far towards the consolidation of unity in Kopanong. We inherited an administration that consists of nine different towns; each had a different system and approach to service delivery, which posed a very serious challenge for us.

This annual report that we are presenting comes as a mandate from the people, emanating throughout the history of our struggle to ensure the democratization of our society, de-racialization of the economy and their participation in bettering the lives of all. Through the mandate from the people, we as a municipality are bound by the people's constitution, which outlines our objects as local government as:-

- To provide democratic and accountable government for local communities;
- To ensure the provision of services to communities in a sustainable manner;
- To promote social and economic development;
- To promote a safe and healthy environment; and
- To encourage the involvement of communities and community organizations in the matters of local government.

It further states that 'a municipality must strive, within its financial and administrative capacity' to achieve these objects as mentioned. This Annual Performance Report's purpose is to serve measure and indicate that we are delivering as and according to our constitutional mandate. It indicates what we have achieved so far and striving to excel beyond communities expectations and all odds, and that there is no way that we can fail their dreams.

To the people and communities of Kopanong, this report will serve as a tool for consolidating and deepening our democracy. During this 12<sup>th</sup> celebration of our freedom and democracy, we should use it as a benchmark towards 2014, use it as a document that will guide our decision making, lead us in implementing resolutions that will change our society and lives forever, a document that will finally advance us to greener pastures and prosperity. Through these statements I would like to indicate that even though we started small and very little, we did not hold on to that, but sought alternatives to address our backlogs, we never believed that problems are mightier than our own strengths as a collective, we kept focused and we are leaping forward to much more better standards as required by legislation and any other form of law.

The 2006/2007 Annual Performance Report is a clear measurement and a result that we are responsive to the people's mandate. Our financial indicators illustrates where we come from and where we are heading to, and where we are heading to is towards a municipality that is viable and sustainable, both economically and socially, we hope we shall deliver more and better in the future.

Together, through unity, we shall prosper.

**CIlr VI JONAS**  
**MAYOR**

## MESSAGE OF THE MUNICIPAL MANAGER

Overview of development issues facing the municipality.

Overview on the achievements of the KPAs and KPIs

Overview of key highlights in relation on the achievements local economic development,

Overview of key highlights in relation the achievements of the municipality on Financial Viability,

Overview of key highlights in relation to Institutional Transformation issues, systems, structures and processes within the municipality.

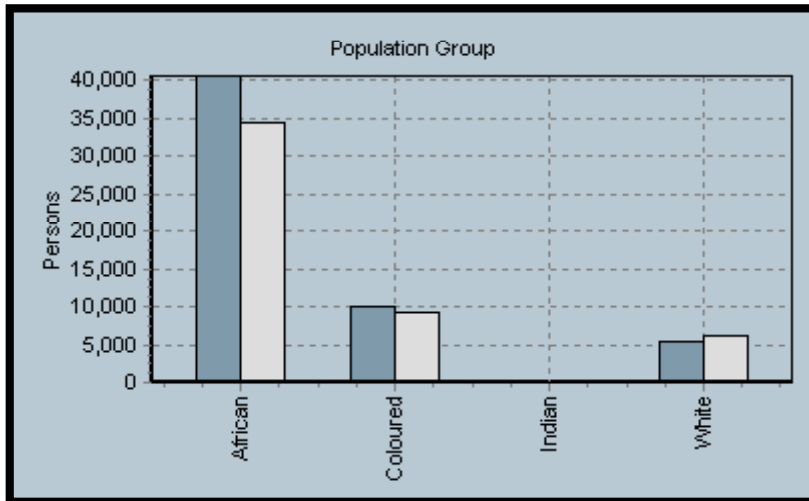
Overview of Good governance and Public participation structures and processes in the municipality

Reflections on the challenges met with regards to implementation of any of the above KPAs and KPIs

High level plan of action in areas for improvement and a plan to deal with the challenges.

Vote of thanks to the political leadership, staff, partners, etc.

Population group



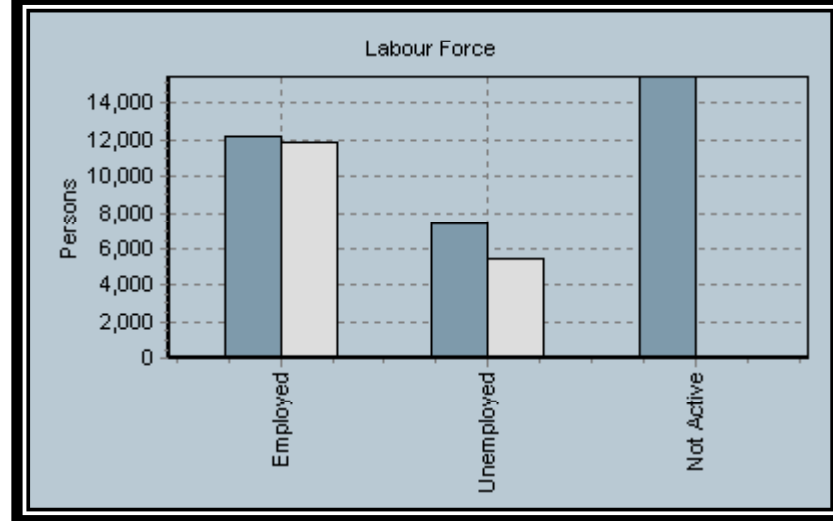
**Key:** Blue columns: 2001 census statistics  
White columns: 1996 census statistics

#### Comments

A steady increase in the African and Coloured populations groups have taken place since 1996. The white population have however decreased over the same period. Currently 72% of the population is African and 18% coloured. The Indian population reflects only 0.04% of the total population. The white population is currently at 9.6%.

The statistics show that the municipality had to increase service delivery over the past 5 years to an additional 6 000 persons.

Labour Force



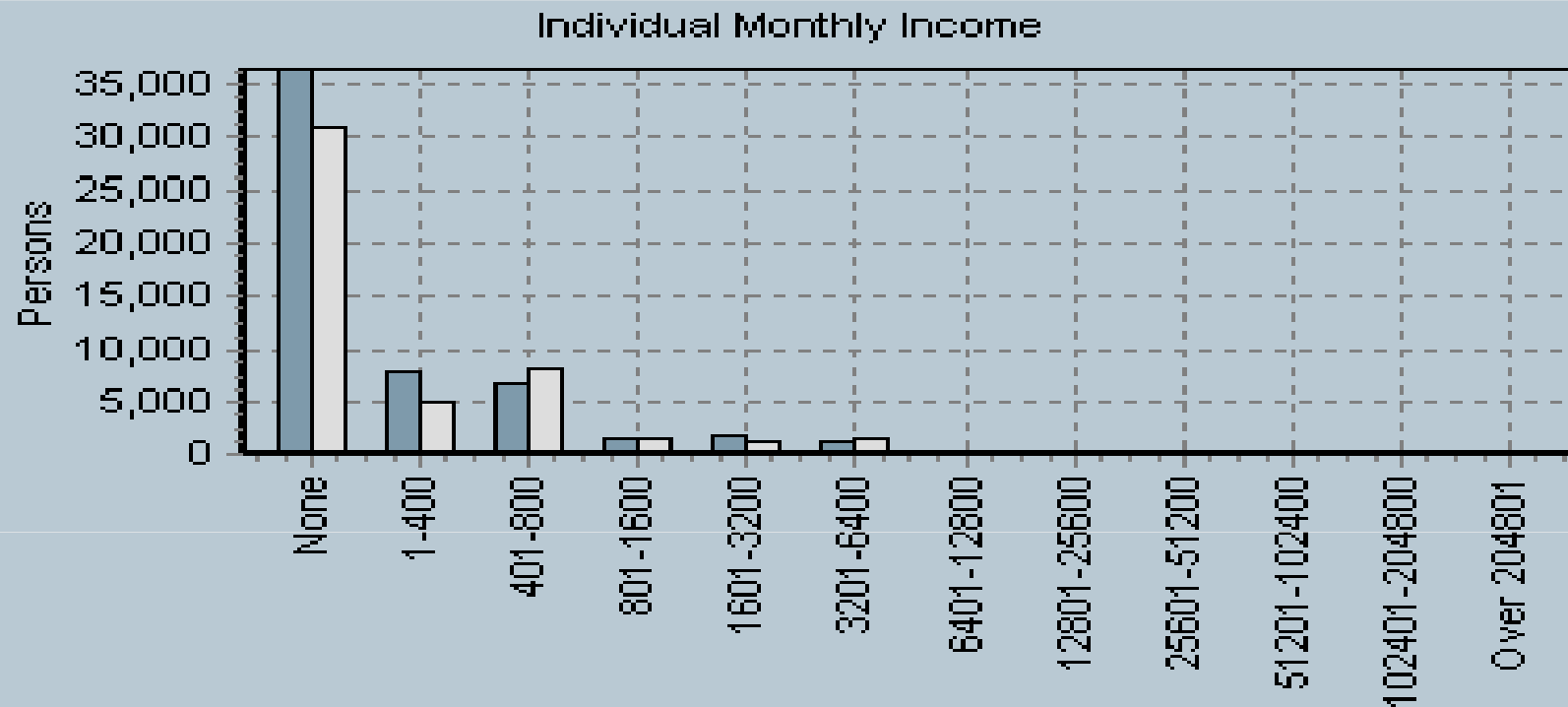
**Key:** Blue columns: 2001 census statistics  
White columns: 1996 census statistics

#### Comments

The unemployed people have increased rapidly in the past 5 years. The local economy were unable to create jobs at an acceptable rate to curb unemployment. This situation have a dire effect on the municipality. The municipality have more and more indigent people that need access to basic services but are not able to pay for the services used.

Local economic development must be prioritised by the municipality in the integrated development plan to ensure a decrease in unemployment over the long term.

## Individual Monthly Income

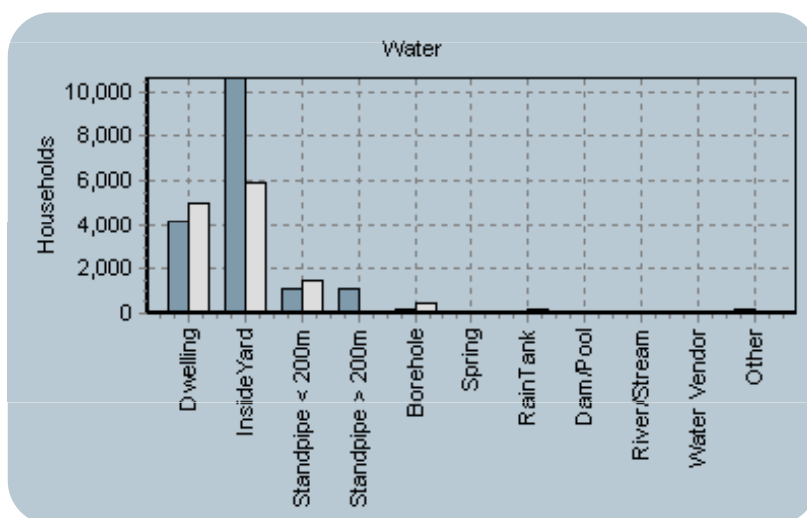


**Key:** Blue columns: 2001 census statistics  
White columns: 1996 census statistics

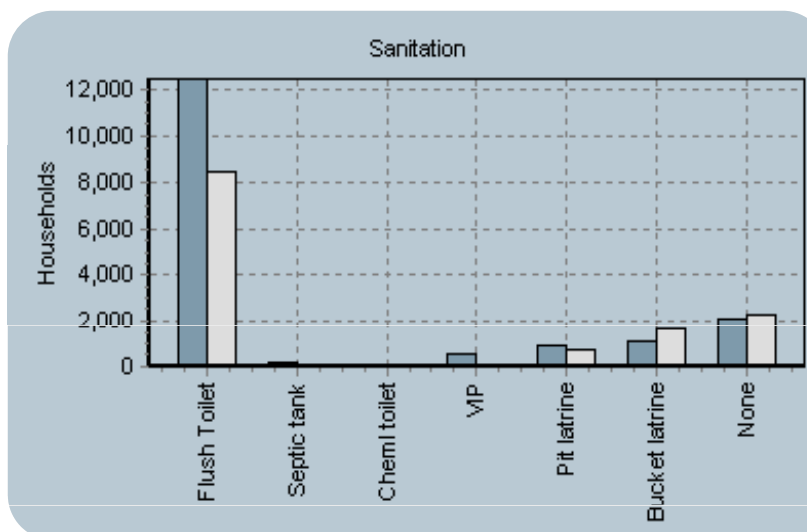
**Comments**

This graph clearly shows the problems that the municipality is facing with regard to service delivery. In terms of the 2001 census statistics  $\pm 62\%$  of the population have no income. The number of people earning R800-00 and less is  $\pm 87\%$  of the total population. The poverty in the municipal area is the greatest challenge that the municipality is faced with. Poverty alleviation must be the short and medium term focus of the municipality.

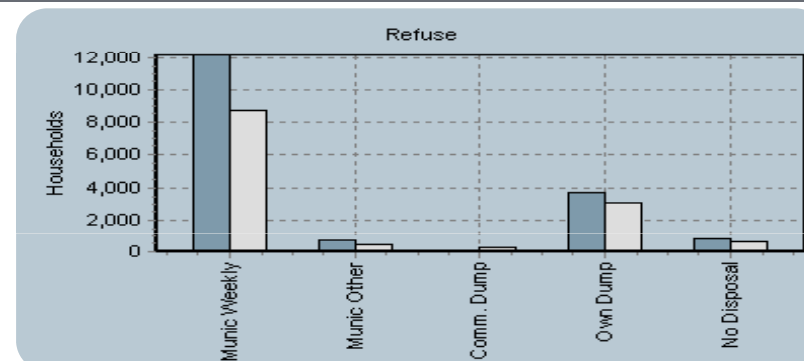
### Access to water



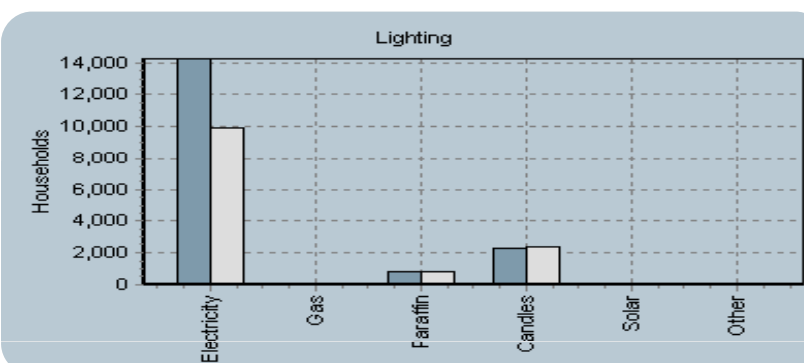
### Access to sanitation



### Access to refuse removal



### Access to lighting



### Comments

It is evident that progress is being made with supplying basic needs and improving access to basic services in urban settlements, i.e. in respect of the 60% of households residing in the urban settlements within KLM. KLM needs to improve access to basic services to households living in rural areas, i.e. on commercial farms and in Bethany. These matters will be attended to during the preparation of KLM's integrated development plan for the current Council's term of office.

### Service Delivery Challenges

The following development issues, in order of priority had been identified:

- ☐ Water and sanitation (sewage)
- ☐ Economic development
- ☐ Streets and storm water management
- ☐ Housing
- ☐ Cemeteries
- ☐ Health
- ☐ Transport
- ☐ Local governance and administration
- ☐ Electricity
- ☐ Sports and recreation facilities
- ☐ Social welfare
- ☐ Education
- ☐ Communication
- ☐ Safety and security
- ☐ Land reform

### Vision

The vision of the municipality for the current year is:

“By 2020 Kopanong shall be a wealthy and successful municipality that provides excellent, sustainable and affordable services and which governs the area in a participatory, democratic and accountable manner”



Integrated Development Plan Development objectives		
No	Development Priority	Objective
1	Water and sanitation (sewage)	<ul style="list-style-type: none"> <li>★ To provide potable water and sanitation in a sustainable manner</li> <li>★ To explore alternative methods for providing potable water and sanitation in rural areas</li> </ul>
2	Streets and storm water management	To have good trafficable roads and streets in both urban and rural areas of Kopanong
3	Economic development	<ul style="list-style-type: none"> <li>★ To create an environment that is conducive for investors to invest in both urban and rural areas</li> <li>★ To ensure the effective marketing of the region for tourism supported by all role-players</li> </ul>
4	Housing	To facilitate the provision of 6,000 houses to poor people by 2012
5	Cemeteries	To ensure that cemeteries are well-maintained, secure and fenced
6	Health	<ul style="list-style-type: none"> <li>★ To promote a safe and healthy environment</li> <li>★ To facilitate the improvement of existing health services, especially the provision of clinic services, emergency medical services and reduction of HIV/AIDS and other life-threatening diseases</li> </ul>
7	Transport	To facilitate the provision of accessible public transport within urban and rural areas in Kopanong, including transportation facilities such as taxi ranks
8	Local governance and administration	<ul style="list-style-type: none"> <li>★ To provide effective and efficient local governance and administration</li> <li>★ To ensure the development of the Municipality's human resources</li> </ul>
9	Electricity	To provide adequate and sustainable electricity services to all consumers
10	Sports and recreation facilities	To upgrade and maintain existing sport and recreation facilities
11	Social welfare	To facilitate access to social welfare services
12	Education	To encourage high standards of education and upgrading of educational facilities

## Integrated Development Plan: Development Objectives

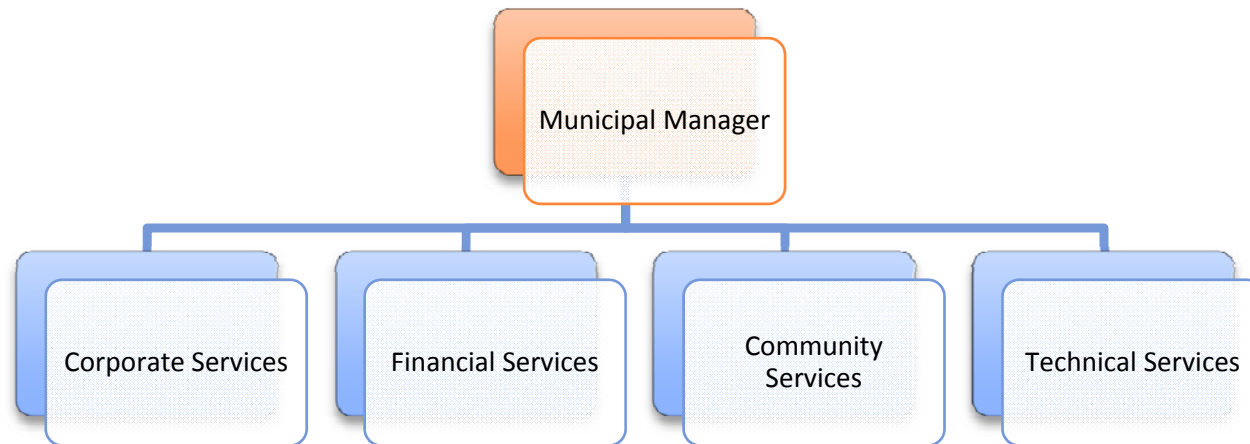
No.	Development Priority	Objective
13	Communication	To facilitate improvements in television, radio and telecommunications coverage
14	Safety and security	To collaborate with SAPS on all its programmes
15	Land reform	To facilitate equal and fair redistribution of land to previously disadvantaged groups

Section 26(f) of the Systems Act requires that the IDP must include the key performance indicators and performance targets set in terms of section 41 of the Act. Section 41(1)(a) of the Systems Act identifies key performance indicators (KPIs) and performance targets as key components of the Municipality's performance management system.

KPIs and performance targets must be set for the development priorities and objectives contained in the IDP. For each of the development issues and objectives in the IDP the Council must set input indicators (i.e. indicators that measure the costs, resources and time used to produce an output), output indicators (i.e. indicators that measure the results of activities, processes and strategies of a programme of the Municipality) and outcome indicators (i.e. indicators that measure the quality and/or impact of an output on achieving a particular objective).

The performance of the municipality against the set key performance indicators for 2006/2007 financial year is discussed below.

## HUMAN RESOURCES



Kopanong Local Municipality's administration consists of five basic organisational units, as follows:

- Office of the Municipal Manager
- Department of Finance (Budget and Treasury Office)
- Department of Corporate Services
- Department of Community Services
- Department of Technical Services

The administration is conducted on a decentralised basis with a local unit in each of the nine towns within KLM's area, with KLM's administrative headquarters in Trompsburg. Each local unit is headed by a Unit Manager who represents the Municipal Manager and departmental heads at local level. The administrative headquarters are responsible for the higher order strategic and staff functions whilst local units are responsible for the day-to-day routine functions of the Municipality.

Whilst the administration's racial composition more or less reflects the racial composition of the local community within KLM, there is a significant gender imbalance within the administration with only 30% of employees being female, whilst female persons make up more than half of the local population. According to 2001 census statistics about 10% of the local population have some or other disability, which means that KLM needs to employ about 40 disabled persons to achieve representivity in terms of disability.

## Municipal Structure

The following table sets out the purpose and key performance areas of each of the Municipality's five basic organisational units:

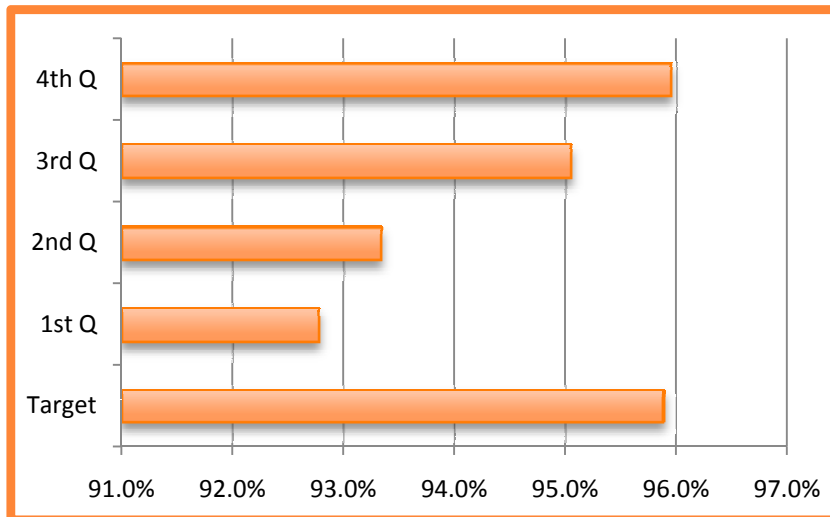
Department	Core Function	Key Performance Areas
Municipal Manager	To provide strategic guidance and leadership to the Municipality and information and communications services	<ul style="list-style-type: none"> <li>▪Manages the preparation and review of the integrated development plan and other corporate strategic plans</li> <li>▪Manages the preparation and review of the corporate performance management system and regularly monitor and review corporate level performance</li> <li>▪Co-ordinate Internal Auditing</li> </ul>
Financial Services	To provide corporate financial management, accounting and internal audit services	<ul style="list-style-type: none"> <li>▪Manage the revenue collection process</li> <li>▪Manage municipal expenditure</li> <li>▪Ensure effective and efficient financial planning</li> <li>▪Supply Chain Management</li> <li>▪Render management info services</li> </ul>
Corporate Services	To provide corporate administrative and human resources management services	<ul style="list-style-type: none"> <li>•Render diverse administrative services</li> <li>•Render legal support services</li> <li>•Render Human Resource Management Services</li> <li>•Ensure and maintain regular strategic planning</li> <li>•Ensure the execution of integrated development planning</li> <li>•Coordinate corporate business planning</li> </ul>
Community Services	To manage, operate and maintain community services within the Municipality	<ul style="list-style-type: none"> <li>•Render cleansing services</li> <li>•Provide affordable electricity</li> <li>•Develop and maintain services related to electricity supply</li> <li>•Build and maintain civil engineering support services related to water, sewerage, roads, storm water and municipal buildings and structures</li> </ul>
Technical Services	To Ensure the rendering of an effective maintenance Service	<ul style="list-style-type: none"> <li>Render an internal fleet management service</li> <li>Maintenance of council buildings, parks and cemeteries</li> </ul>

## GENERAL KEY PERFORMANCE INDICATORS 2006/07

### The Municipal Planning and Performance Management Regulations (2001)

The Minister of Provincial and Local Government published the Municipal Planning and Performance Management Regulations (2001) in terms of the Municipal Systems Act setting out in detail the requirements for performance management. The Regulations also contain the general indicators prescribed by the Minister. The measurement of the National Key Performance Indicators is discussed in this Chapter.

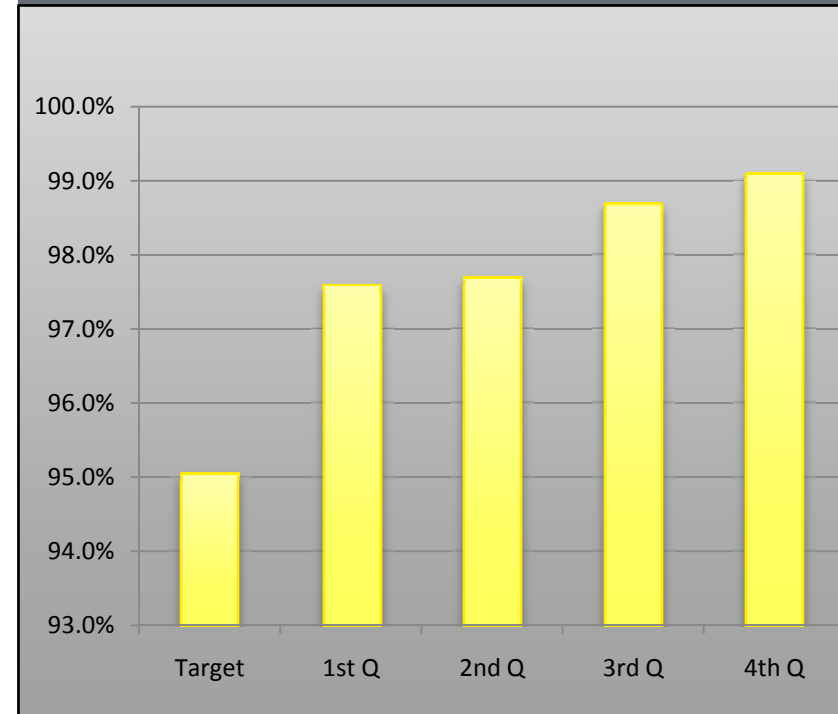
### The % of households with access to basic level of water



The target of 95.9% seems to be achievable during this financial year. The Municipality has already achieved a 95%. The risk that may be involved is a lack of funding to achieve the additional 0.9%.

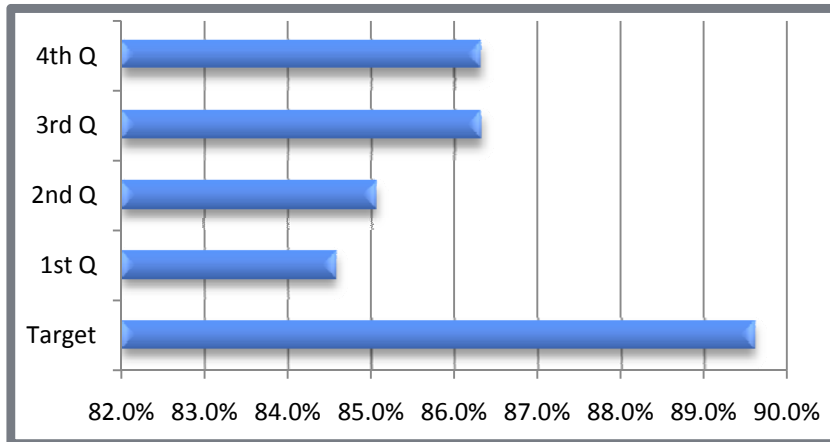
The Municipality will make an effort to ensure achievement of the target. Funding and resources will be allocated in the last quarter to try to ensure that the target is achieved.

### The % of households with access to basic level of sanitation



“The Municipality has already exceeded the target set for the current financial year. This achievement is in response to national government’s initiative to eradicate bucket night soil removal across the country by the end of 2007. The remaining buckets will be eradicated by the end of the current calendar year”.

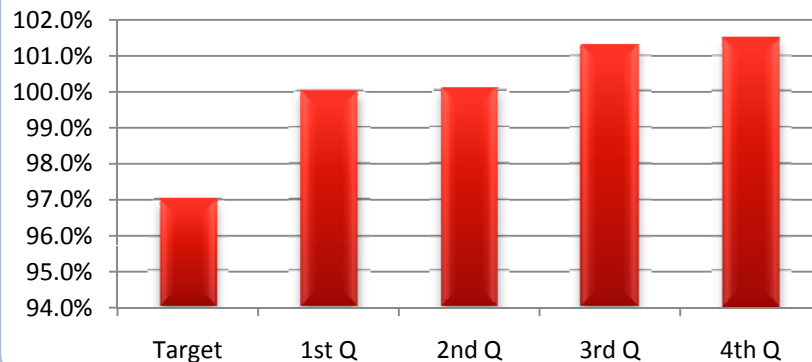
### The % of households with access to basic level of electricity



This target will not be achieved, due to the fact that electricity is supplied by ESKOM in its license area and CENTLEC in the Municipality's license area. KLM therefore must rely on external bodies to achieve this target.

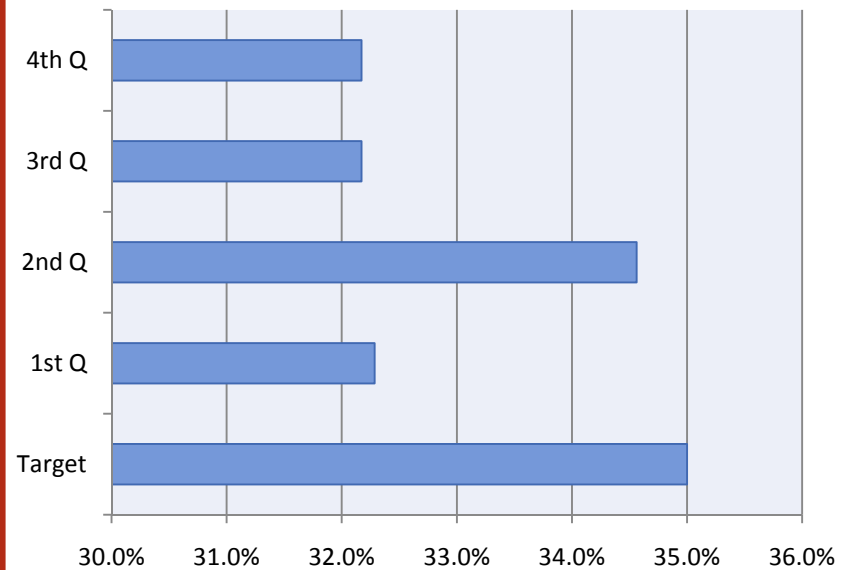
The Municipality will however on a continuous basis interact with both service providers to ensure that the target is achieved.

### The % of households with access to basic level of solid waste removal



All the urban households in the municipal area has access to solid waste removal.

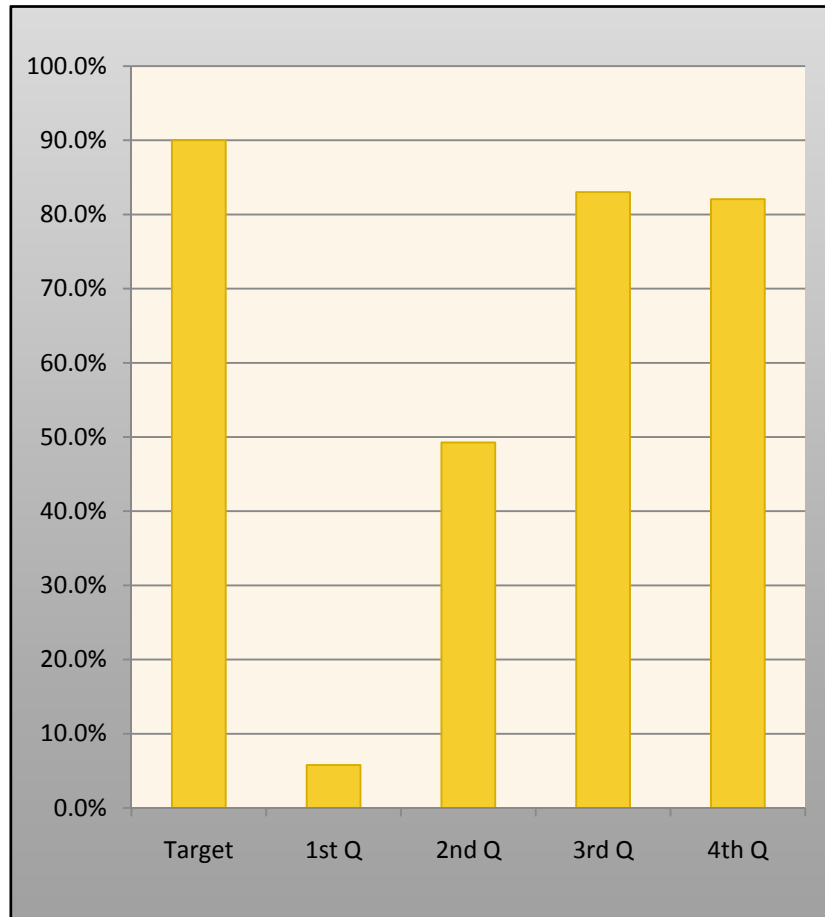
### The % of households earning less than R1100 per month with access to free basic services



The biggest challenge for the municipality lies in the expansion of basic service delivery to the rural areas. Service delivery in the urban areas are under serious threat due to the non-payment of services.

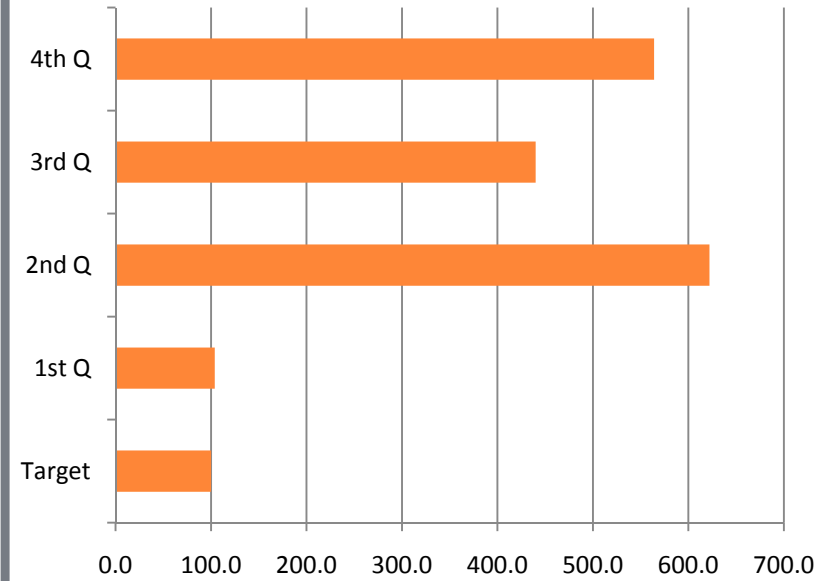


The percentage of a municipality's capital budget actually spent on capital projects identified for the 2006/2007 financial year in terms of the municipality's integrated development plan;



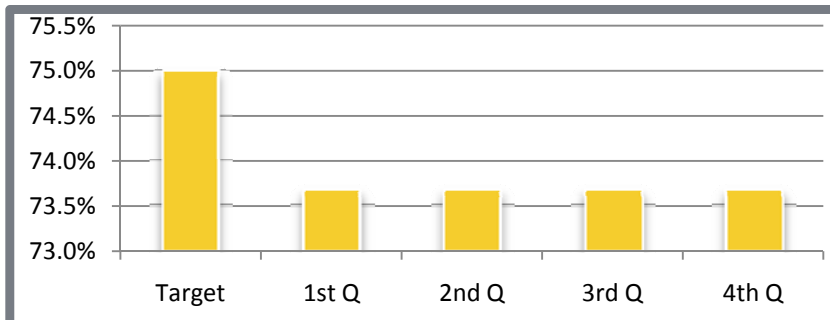
The municipality is well on it's way to achieving this target for the current financial year.

The number of jobs created through municipality's local economic development initiatives including capital projects



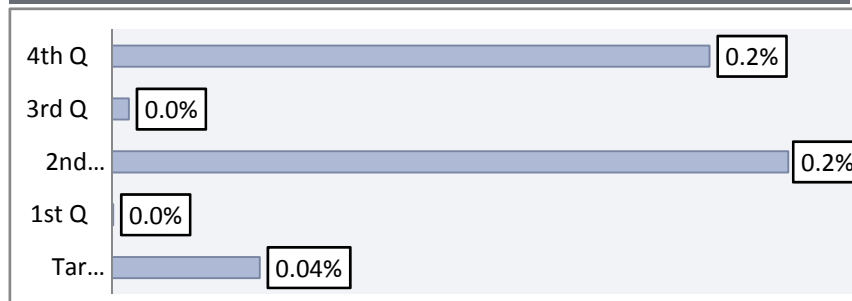
The municipality exceed the target to a large extent. The only negative consequence of the municipality's job creation campaign is that jobs are not sustainable and only available for a limited duration as can be seen in the reduction from the 2<sup>nd</sup> quarter to the 3<sup>rd</sup> quarter

### The no of people from employment equity target groups employed in the 3 highest levels of management



According to the Municipality's target 75% of these posts must be occupied by Black, female and disabled persons. One (1) post is currently vacant that will be filled in the new financial year. The municipality have performed extremely well in the transformation of the municipality's workforce.

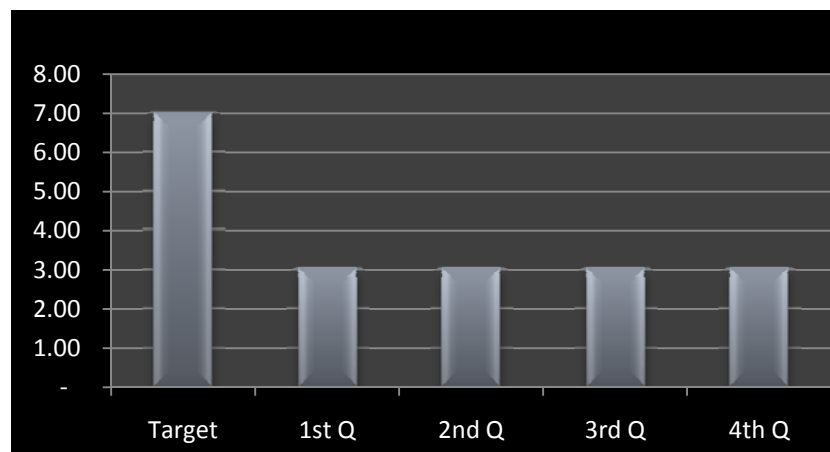
### The % of a municipality's budget actually spent on implementing its workplace skills plan;



This target will not be achieved due to the Municipality's cash flow restrictions. The Municipality simply do not have the cash to train employees and then only claim back from the LGSETA.

Management and the unions will have to determine a solution in order to ensure that employees are trained to ensure a pool of suitable qualified employees.

### Debt Coverage Ratio

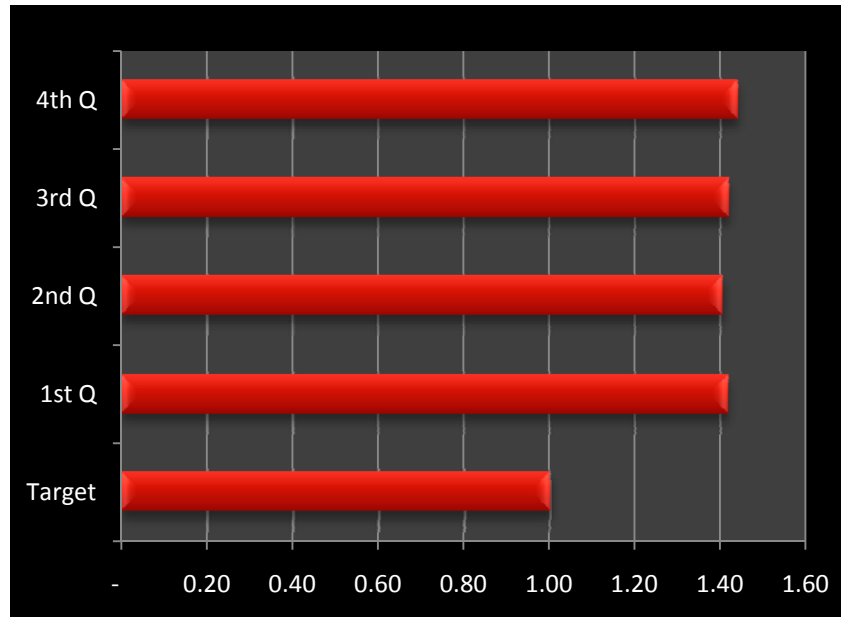


"The debt coverage ratio is a financial viability indicator. It indicates the Municipality's ability to generate sufficient revenues to pay interest and redemption (i.e. debt service charges) on loans (long term debt). A low debt coverage ratio (i.e. < 1) indicates that the Municipality might encounter difficulties meeting debt service charge obligations from own operating revenue. A high ratio (i.e. > 1) indicates relatively low expenses and a good financial position.

The only reason why the Municipality has a favourable debt coverage ratio (> 1) is because debt service charges on long term debt (i.e. debt exceeding 12 months) are about 1% of its budgeted operating expenses (R 846,022).

In local government it is acceptable if debt service charges are between 11 and 15 per cent of operating expenses per year. However, although the debt coverage ratio may indicate that a municipality may be able to service its debt, negative cash flow might in practice result in that municipality not being able to do so"

## Outstanding service debtors to revenue ratio

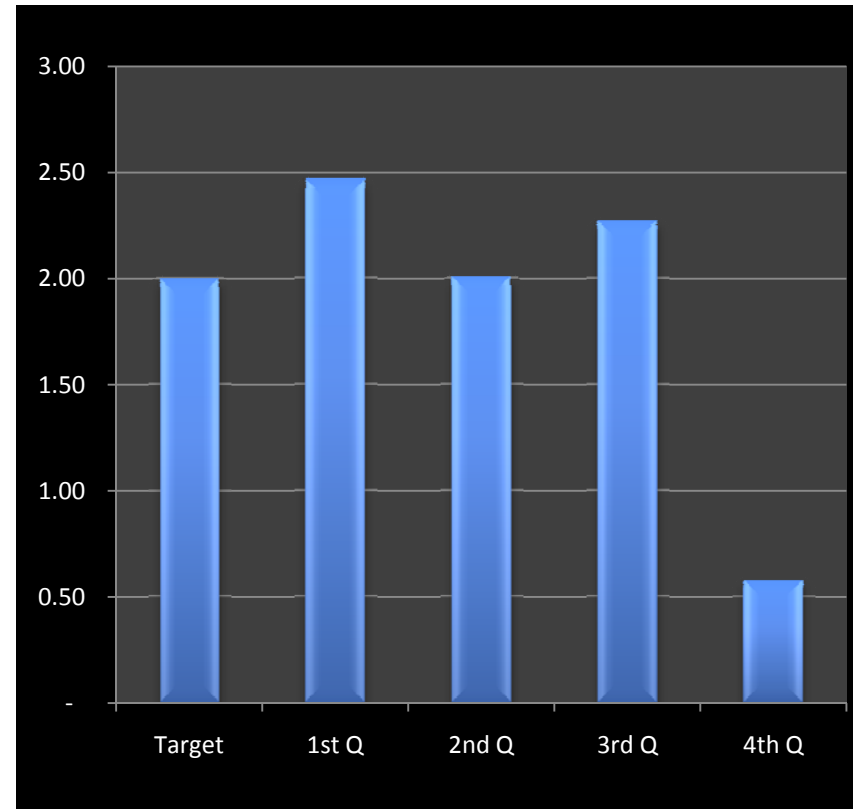


The outstanding service debtors to revenue ratio is a financial viability indicator. It indicates the average number of days debtors (property rates, water sales, electricity sales, sewage removal and refuse removal) are outstanding. An acceptable norm is 56 days.

As a general guideline any debtors older than 90 - 120 days is deemed to be irrecoverable. A ratio of 1.4 (which the Municipality more or less maintains) means that the average period debtors are outstanding is in excess of 500 days, a period which exceeds the norm by about 450 days.

The Municipality has to drastically improve its debt collection efforts to achieve the target it set. If it achieves the target, it will recover its debts within a year, which still exceeds the norm dramatically. The low debt recovery rate is the main cause of KLM's chronic cash squeeze.

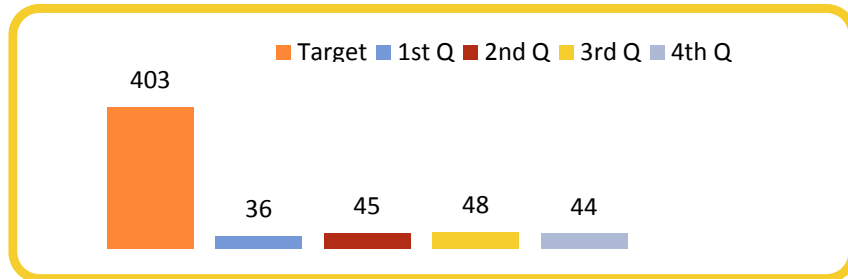
## Cost coverage ratio



The cost coverage ratio is a financial viability ratio. It indicates the cash flow situation of the Municipality, i.e. whether KLM has the cash available to cover its expenses during a specified period. If the result of the equation is  $1 >$  it means that the Municipality has sufficient cash to cover one month's expenses. If it is  $< 1$ , the Municipality cannot cover a month's expenses, which means that it will not be able to meet its commitments. Ideally the ratio should be 3 or  $> 3$ , i.e. the Municipality should have sufficient cash to cover three month's expenses.

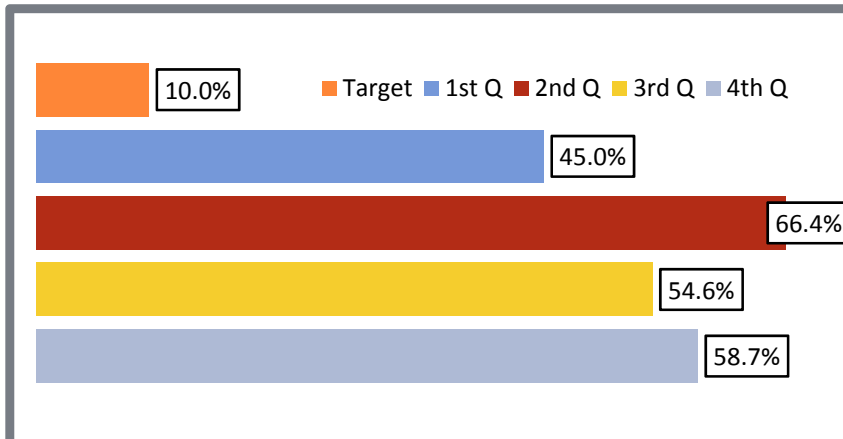
## COMMUNITY SERVICES

### Households using communal taps



The target have been achieved by the municipality. Only 44 households are still using communal taps.

### Water Loss

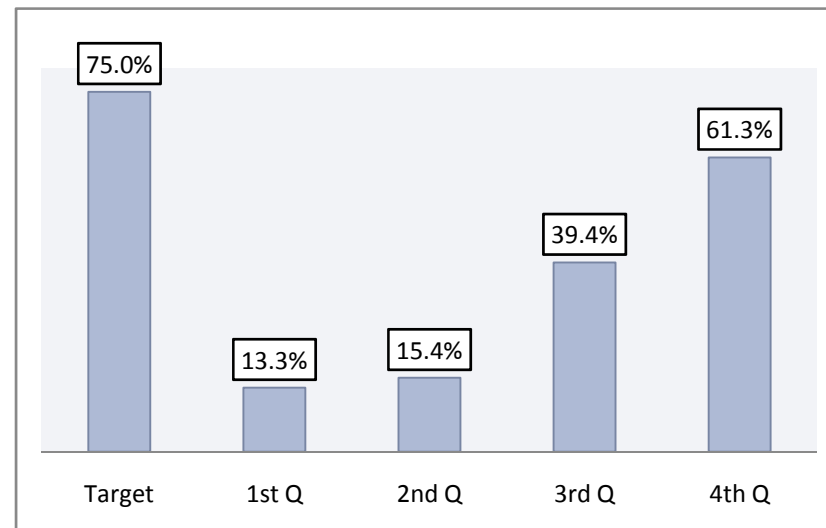


Water distribution loss is the difference between the amount of kiloliters of water the Municipality buys/extracts and the amount that is registered by water consumption meters. The main causes of distribution losses are (a) poor infrastructure maintenance which causes leakages and breakages, (b) slow response to repairing reported leakages (c) over registration of supplier bulk meters, (d) under registration of consumption meters, (e) bypassing consumption meters, (f) non-reading or incorrect reading of consumption meters, and (g) non-measurement of consumption (e.g. communal taps).

The water distribution loss experienced by the municipality is unacceptably high. The Municipality will not achieve the target of reducing water distribution loss to 10%.

A further reason for the high losses may be because of the fact that water use for parks, municipal buildings and swimming pools are not metered and written off against the water account.

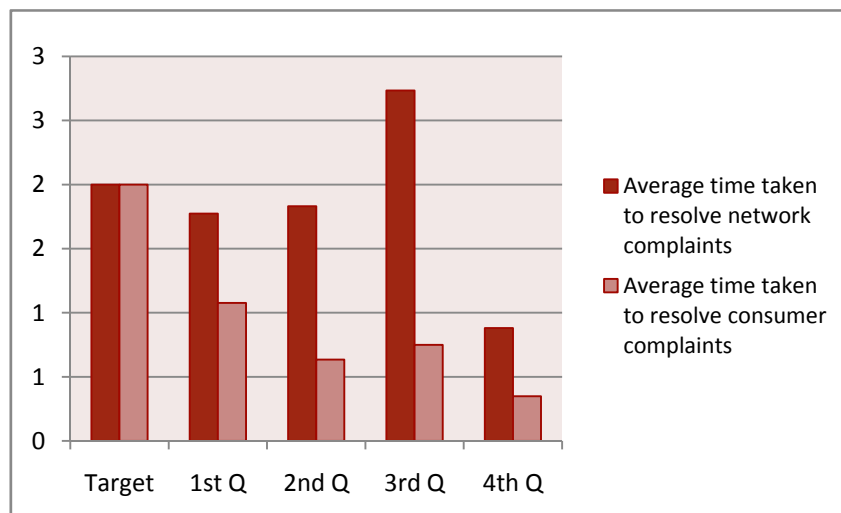
### Spending on maintenance of the water network



The budgeted provision for repairs to and maintenance of water infrastructure, excluding repairs to and maintenance of associated vehicles, during the current year amounts to R 690,000. The Municipality set a target to spend 75% (R 593,250) of the budgeted amount (including repairs to and maintenance of associated vehicles).

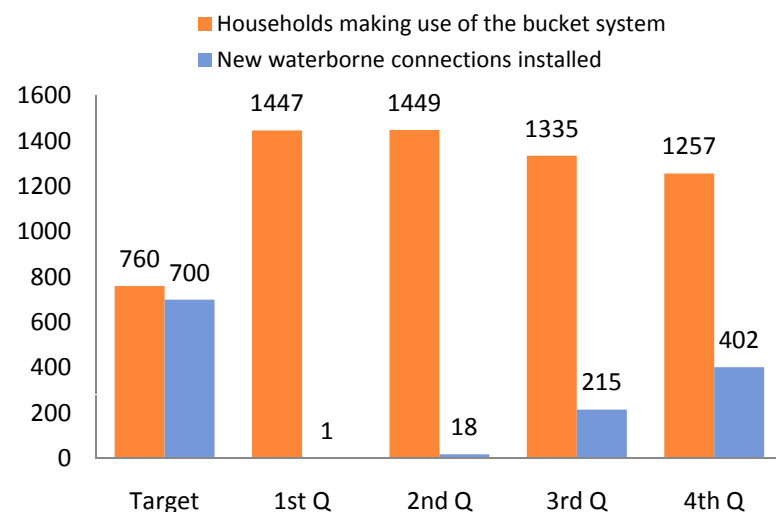
Traditionally “repairs and maintenance” provisions in budgets are first to be reduced to cover over spending of other votes/items or when a municipality faces a cash squeeze.

### Time taken to resolve complaints



The municipality performed exceptionally well in the first two quarters. However in the 3<sup>rd</sup> quarter the response time to network problems were delayed

### Households making use of a bucket system



The reduction in the number of households making use of the bucket system needs to be sped up. However the municipality is making meaningful progress in this regard.

The number of connections to the waterborne sewer system is progressing slow. This will however increase as funding for the eradication of the bucket sewer system is becomes available.

### Sewage blockages

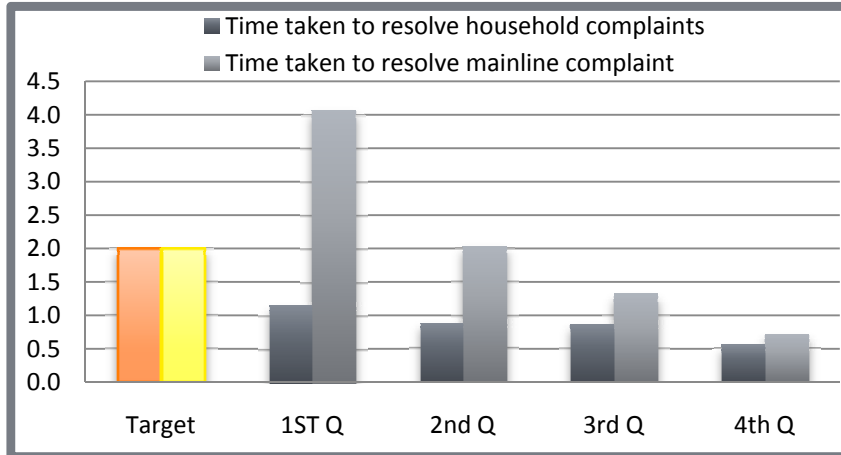
Key Performance Indicator	Target	1 <sup>st</sup> Q	2 <sup>nd</sup> Q	3 <sup>rd</sup> Q	4 <sup>th</sup> Q
Blockages reported by households	239	311	243	188	234
Mainline blockages reported per town	642	170	118	180	179

The maintenance of the sewage network is not under control. The municipality failed in reducing the blockages reported by households. Already in the first quarter the municipality exceeded the target. It seems as if the sewage network is in dire need for maintenance.

Mainline blockages is under control but there is an upward trend in the third quarter but still well below the target set by the municipality.

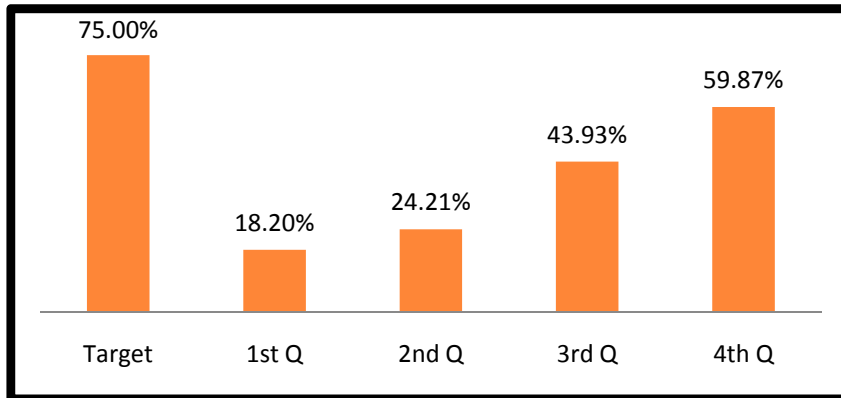
The reasons for the high number of blockages reported by households needs to be investigated. The reasons for the mainline blockages needs to be determined as well.

### Time taken to resolve blockages



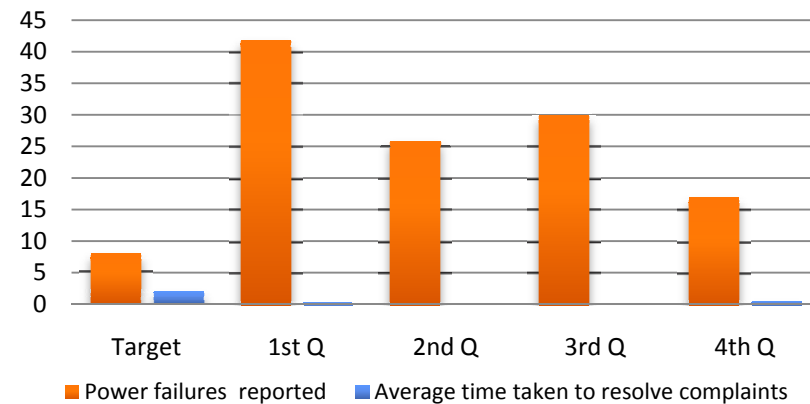
The municipality is performing well in this regard. Attention should be given to mainline blockages. The increase in time taken can be attributed in the size of the blockages that were found during the 2<sup>nd</sup> quarter

### Maintenance of sanitation network



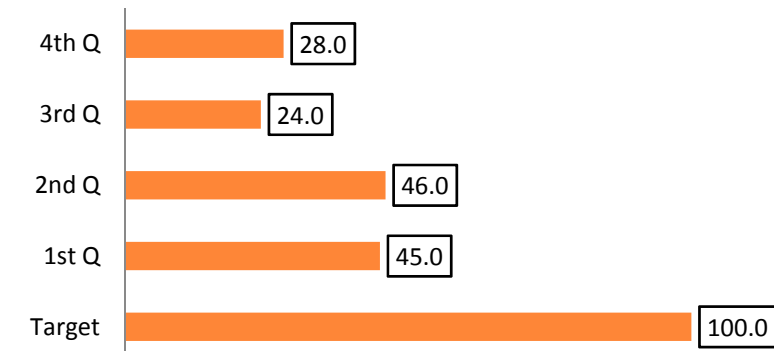
Once again the spending on the maintenance of the network is a source of concern. The municipality will not be able to keep up the performance if spending on maintenance of the network is not increased in the following financial years.

### Electricity



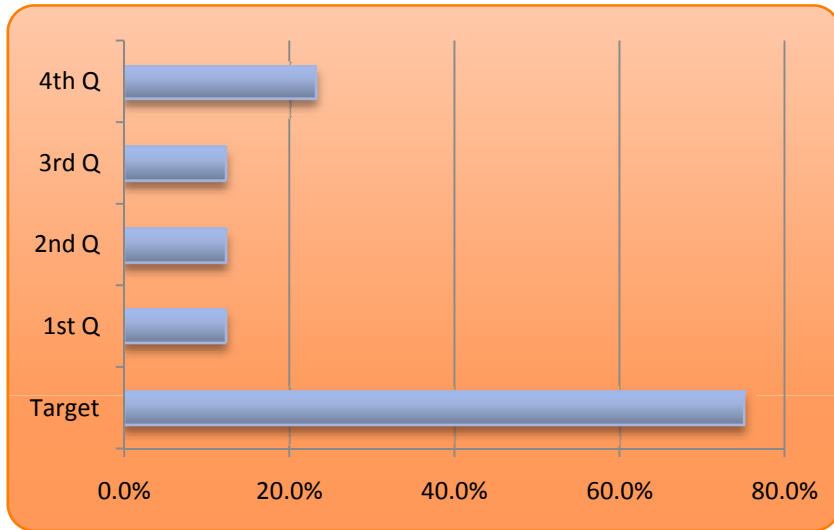
The power failures reported is exceptionally high. The time taken to resolve complaints is well within the target set by the municipality. The municipality will engage ESKOM and CENTLEC to determine the reasons for the high incidence of power failures.

### Customer satisfaction



Vendor complaints is well below the target set by the municipality.

### Spending on road maintenance against budget



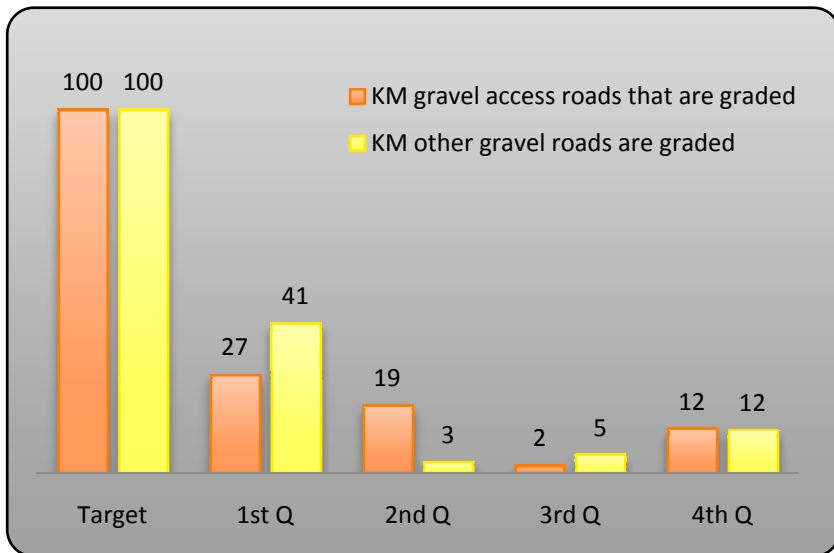
### Commentary

The maintenance of the road network is not getting the desired attention. The gravel roads that are graded per quarter is far below the target set by the municipality. Spending on maintenance is also well below the target.

The most important factor that contributes to the non-performance of the municipality is a lack of financial resources to maintain and increase the existing roads network of the municipality.

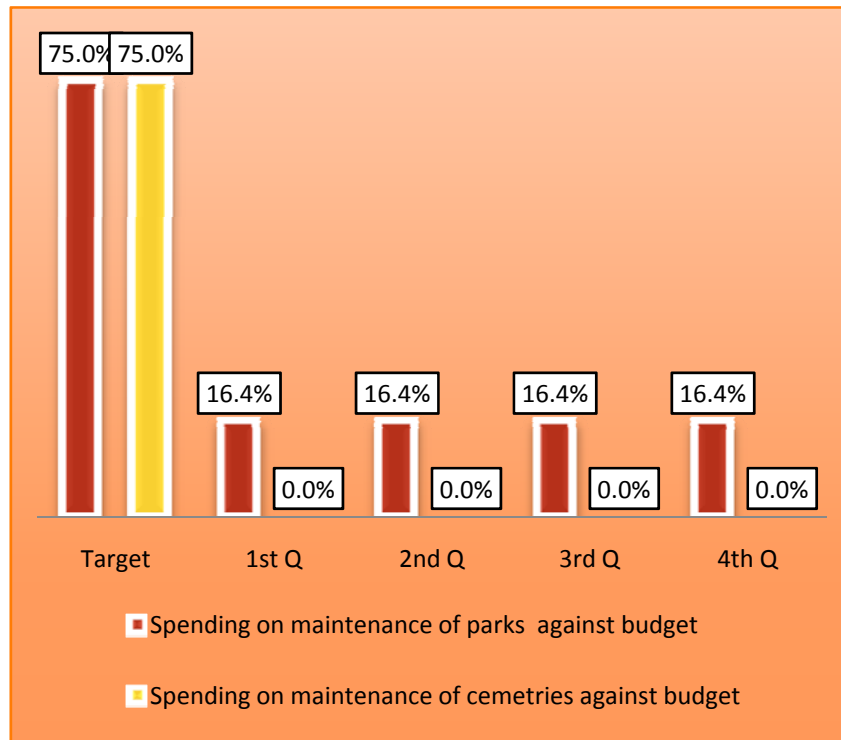
Interventions should be planned on how to increase the municipality's financial allocation to the maintenance of existing municipal infrastructure that includes water, electricity sanitation and roads.

### Maintenance of Road Network





### Maintenance of Parks and Cemeteries

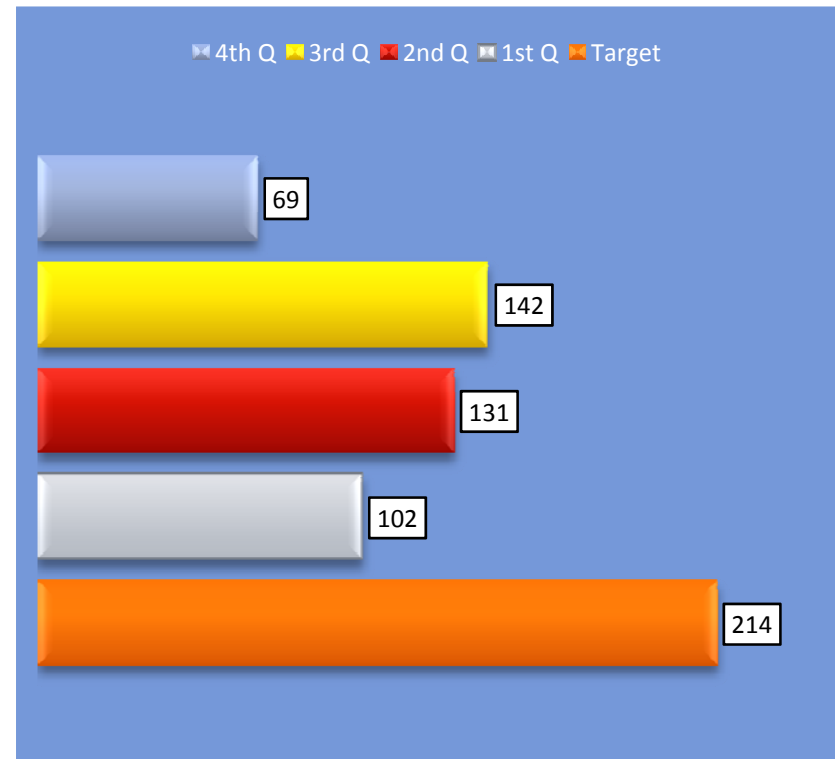


Once again the spending on maintenance is non-existent.

The municipality only spent 16% of the budget allocated to the maintenance of parks. The spending on the maintenance of cemeteries is 0%.

If this trend continues in the municipality as is currently the case the deterioration of existing infrastructure will increase over time and put an additional burden on the municipality's precarious financial position

### Complaints received for the non-removal of refuse



The municipality were able to comply with the service delivery target set by the municipality in this regard. The trend however is that the complaints received during each quarter is on the rise.

If the municipality is going to comply with the service delivery target attention should be given to the supervision of the refuse removal teams in the various units.

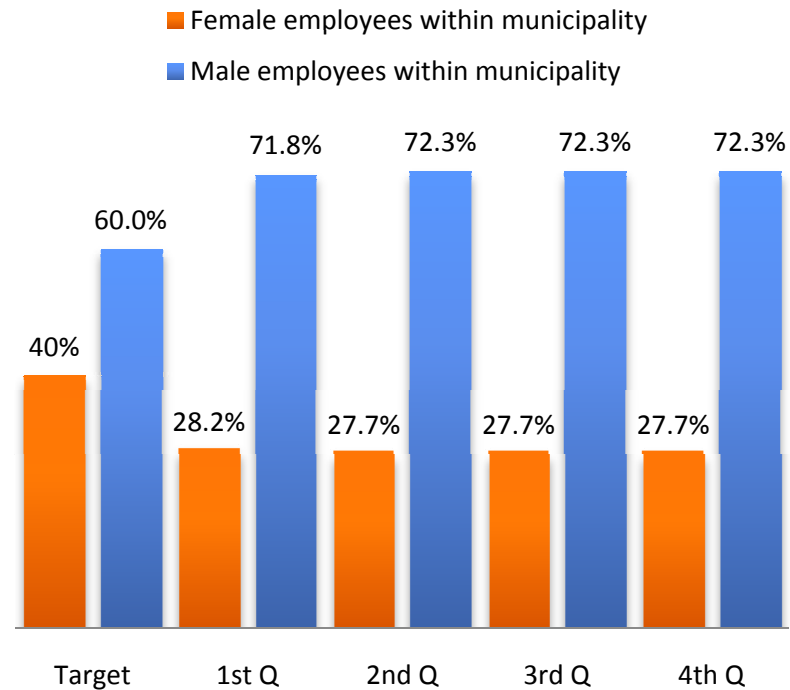
## CORPORATE SERVICES

**Key performance Indicators not measured**

The following key performance indicators were not measured.

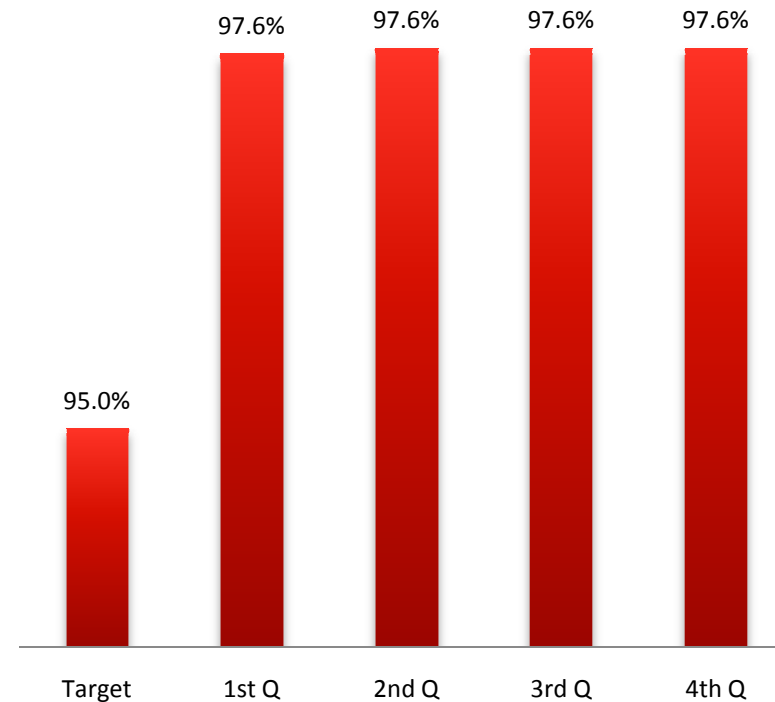
Key performance indicator	Comment
Reports submitted to council under delegated powers	No data provided
Reports submitted to EXCO under delegated powers	No data provided

The success of the performance management system depends largely on the data supplied. Effort should be made by departments to ensure that data collection takes place timeously to enable the PMS co-ordinator to supply the Municipal Manager and other HOD's with correct information that can be used to do proper planning and to prevent poor performance during a financial year.

**% of male and female employees within the municipality****Comments**

The demographic profile of the Free State Province reflects a distribution of 51% females and 49% males. In view of this demographic profile the municipality will have to give attention to the appointment of female employees when vacancies arise in the departments.

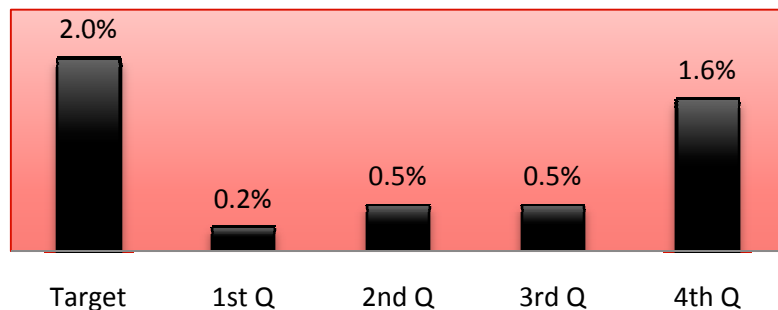
The municipality failed to redress the gender imbalance that exist within the workforce. The current employment equity plan will ensure that the municipality address this imbalance in the next five years.

**Designated employees within the municipality****Comments**

Currently 97,5% of the municipality's workforce are from designated groups (i.e. African, Indian, Coloured, female and disabled employees). The municipality have succeeded with the overall transformation of the municipality. However greater effort must be made with gender transformation in management levels as well as the appointment of disabled persons in the workforce.

In management positions 90% of the employees are from the designated groups.

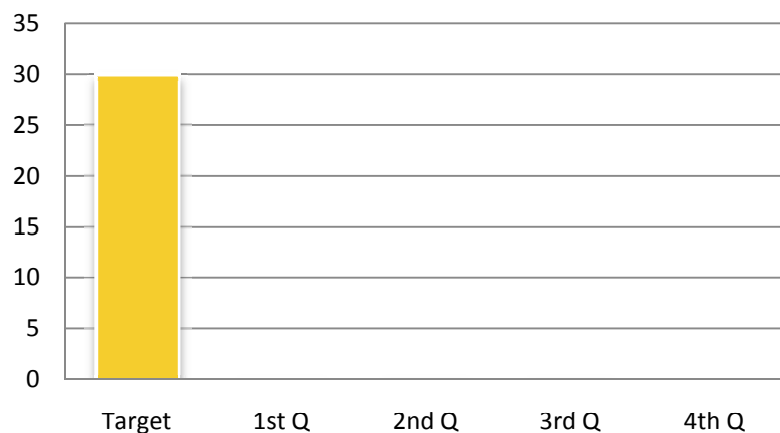
## Differently abled employees in the municipality



## Comments

The municipality have failed to give attention to the appointment of differently abled persons. The municipality have made progress against the target but falls far short of the target. A targeted recruitment drive should be embarked upon to ensure the recruitment of suitable disabled candidates for posts in the municipality.

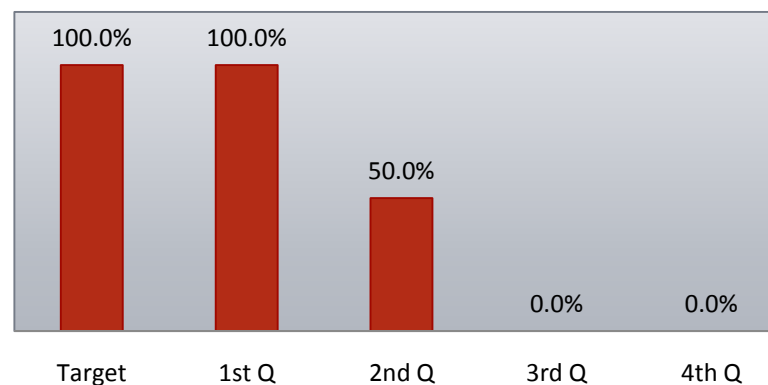
## Training and skills interventions attended by employees



## Comments

Due to the cash flow problems experienced by the municipality no money was invested in the training and development of employees. Training and development of employees is an important feature of a progressive employer. By not investing in employees development the municipality will increasingly find it difficult to retain employees who are the best performers. These employees without fail employers who are willing to invest in their development. The municipality is also contributing 1% of the payroll to the SETA. By not training employees the municipality cannot access grant funding for training that is made available by the SETA

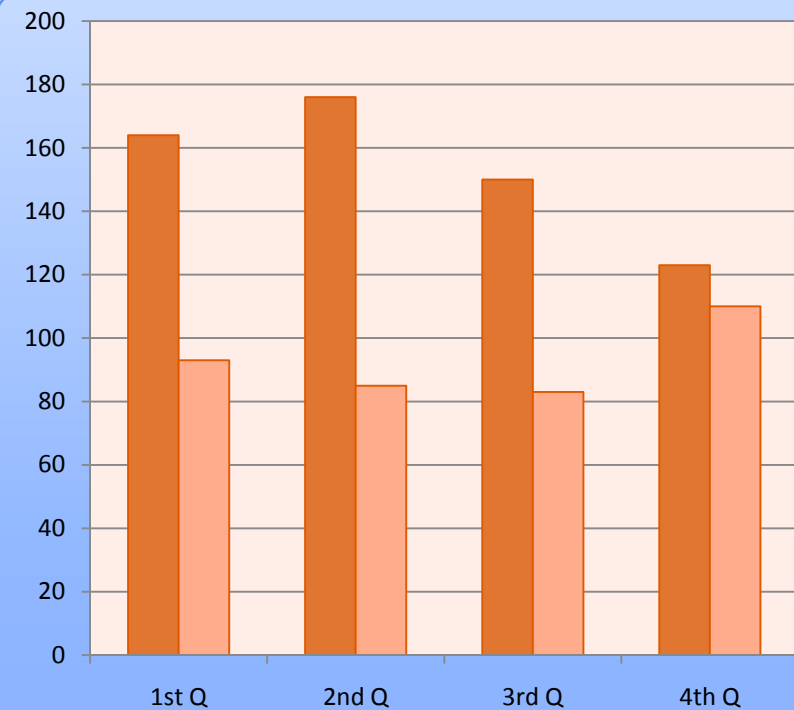
## Disciplinary cases finalised



## Comments

The municipality is falling behind with the target. The reasons for this is the postponement of disciplinary hearings. Care should be taken that disciplinary hearings are not unnecessarily postponed .

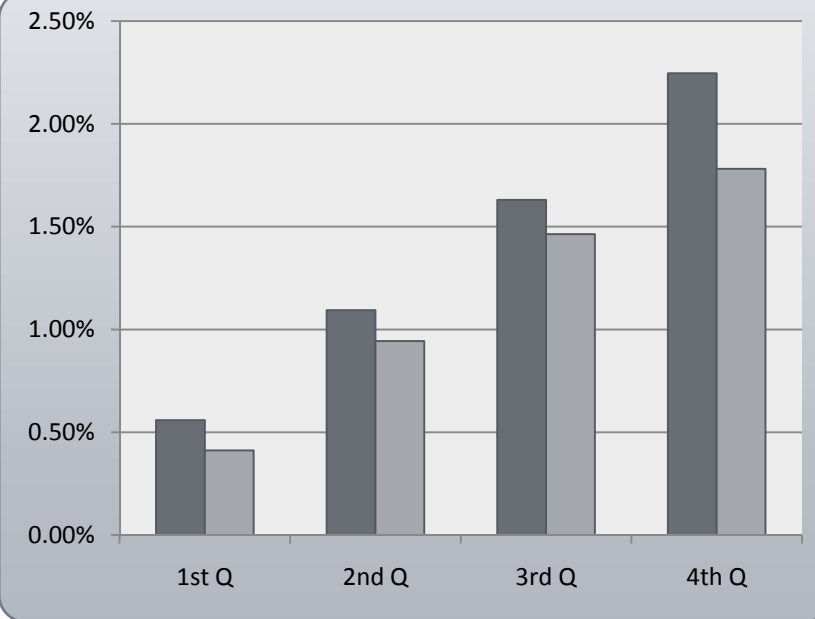
Employees absent without reason and on sick leave



The number of employees absent without reason during a quarter is unacceptable. The municipality employs 359 employees and during any given quarter  $\pm 50\%$  of the employees is absent without reason.

This poor record will be addressed through the enforcement of progressive and fair disciplinary action. Absence due to sick leave is marginally better, but the employer will also have to address this tendency.

% of man days lost due to absence without reason and sick leave



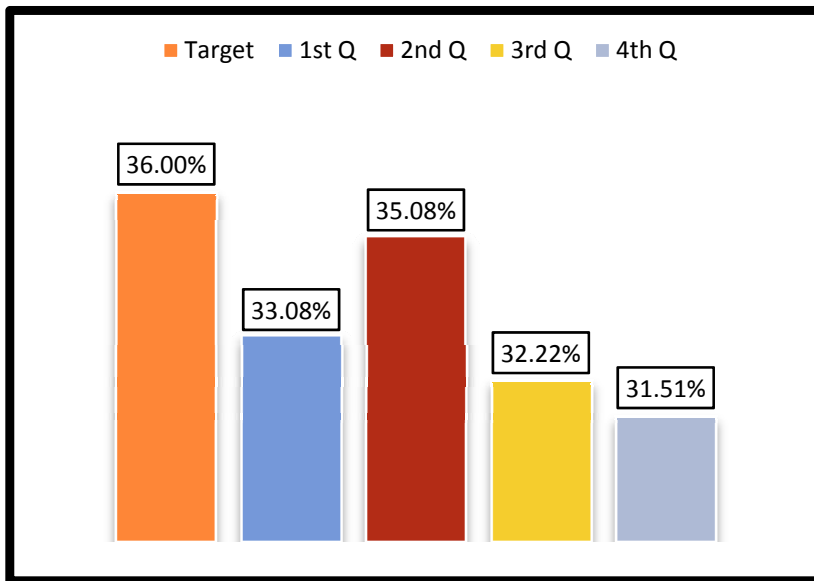
There is available 89,750 (250 workdays x 359 employees) man days in a calendar year. A 1% absence rate means that the municipality loses 898 man days during a calendar year. The municipality lost 3.59% man days due to absence without reason and sick leave taken.

This 3.59% is 3,222 man days that the municipality was not performing at full capacity. A steady increase in unauthorised absence and sick leave is experienced during the year.

The municipality will have to address discipline in the workforce to ensure that municipality functions optimally.

## FINANCIAL SERVICES

Rand spent on salaries against income

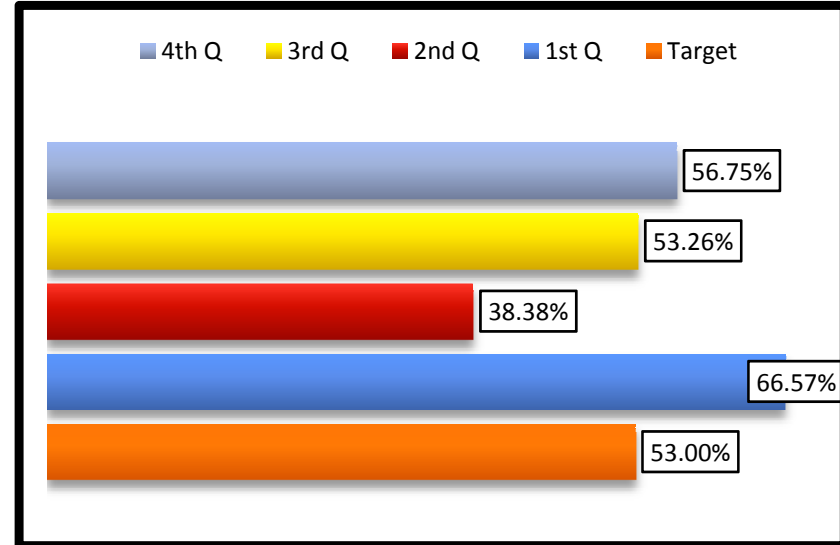


The municipality is spending on average 30% of its total income on salaries. This is an indication of the cash flow problems of the municipality. According to the target and the budget the actual spending should have been 36%. The municipality is not always in the position to pay the salary creditors each month.

The last quarter is very low but this is not a total reflection of the situation as the municipality received an R 8 million grant to help pay creditors.

The municipality's problems in this regard is already reflected in the scorecard of the Community Services department that struggles with basic maintenance of existing infrastructure.

Rand spent on general expenditure against actual income

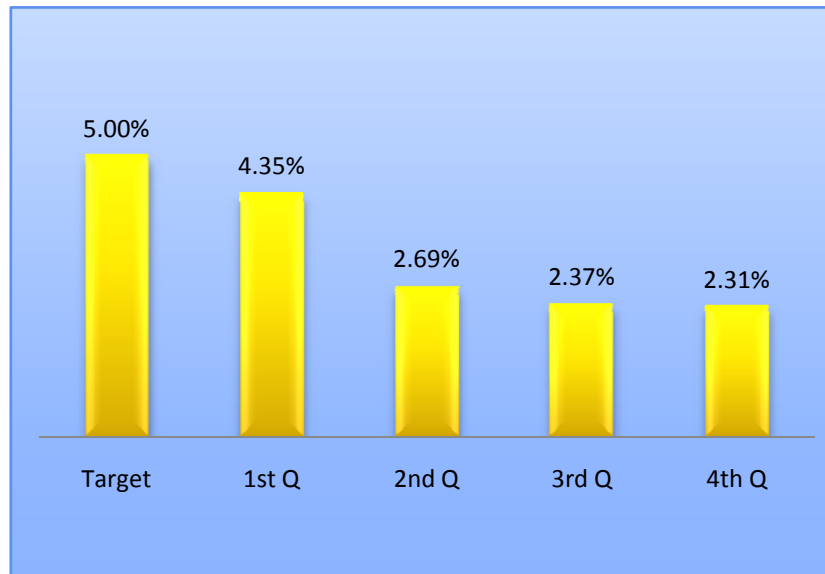


The average spending is 45% and this once again indicates that the municipality is only collecting at an average rate of 76%. This also has a direct impact on service delivery as the municipality is in a position to finance only the very urgent items.

This can also be seen in the fact that the creditors is growing.



Rand spent on maintenance against actual income

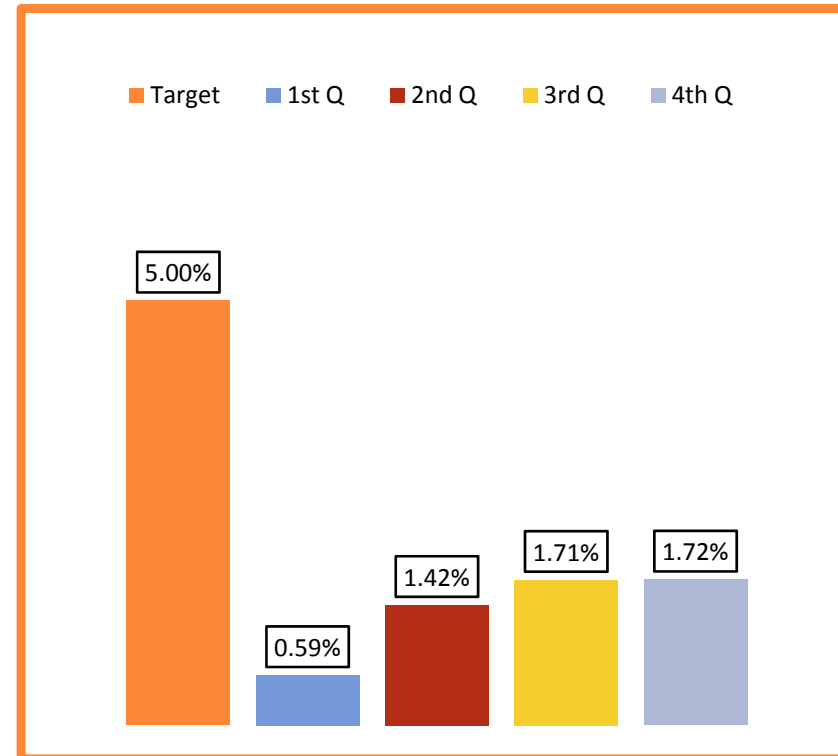


Maintenance is at an all time low. Only 5% is allocated to the maintenance of municipal infrastructure and it seems as if the municipality will not be able to achieve the target.

The reason for the under spending is the negative cash flow that the municipality experience.

If this trend continues the municipality will be faced with a situation where maintenance of infrastructure will grind to a halt and the municipality will not be able deliver basic services to the communities

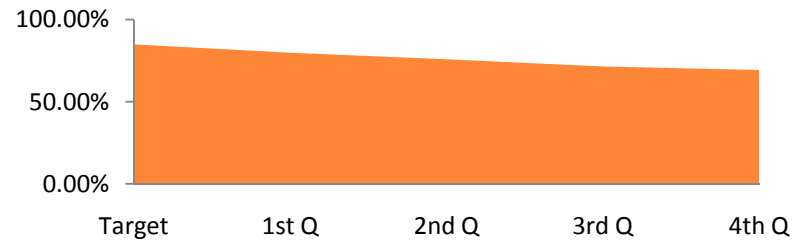
Rand spent on capital cost against actual income



The spending on capital projects from income is low due to the fact that the Council approved to use the funds for other purposes during the mid-year review.

## Debtor payment to debtor billing

Chart Title

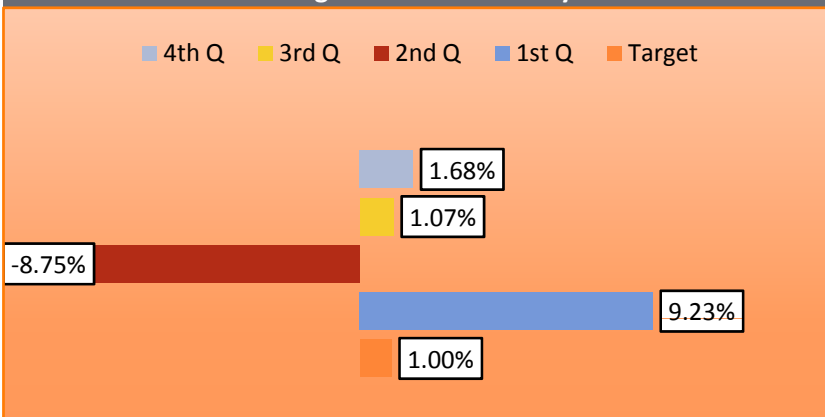


## Comments

Although the percentage payment rate is dropping the actual income collected have increased. The reasons for this is the seasonal water usage and the levying of interest on arrear accounts that had started during the second quarter.

The municipality has an internal credit control unit and is also using an external debt collection agent and both these options had been intensified during the third quarter.

## % of debtors outstanding for less than 60 days



## % of debtors outstanding for more than 60 days

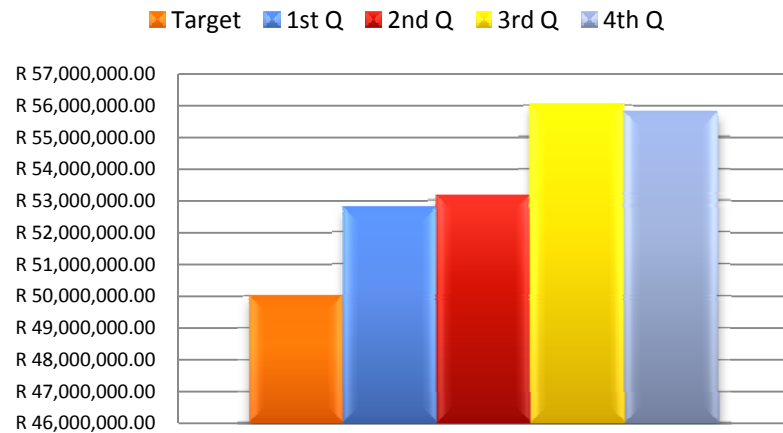


## Comments

Although the municipality inherited a large debtor's book, the book also increased since the amalgamation.

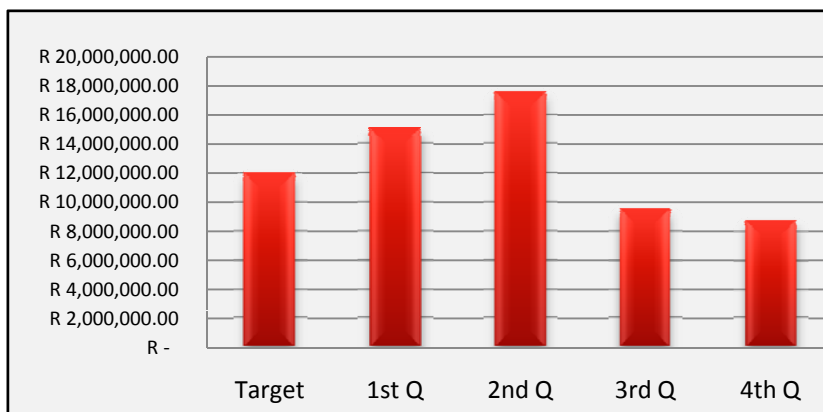
The municipality started a full time credit control section three years ago and this had increased the payment rate from 55% to close to 80%. It had also appointed an external company to help to collect the arrears.

Credit control had been intensified during the last quarter to increase the payment rate as a low payment rate has a very negative impact on service delivery.

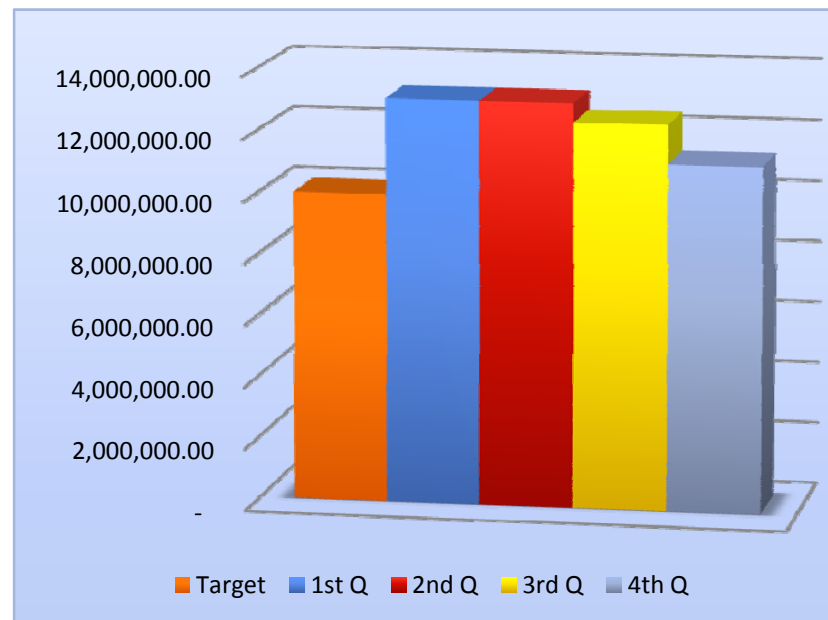
**Increase/Decrease in Debt****Comments**

The increase of the municipality's debt is alarming. If this trend continues the municipality will have outstanding debt to the value of R 60 million by the end of the financial year.

If the collection of debt is not increased the municipality will continue to be faced with financial constrains.

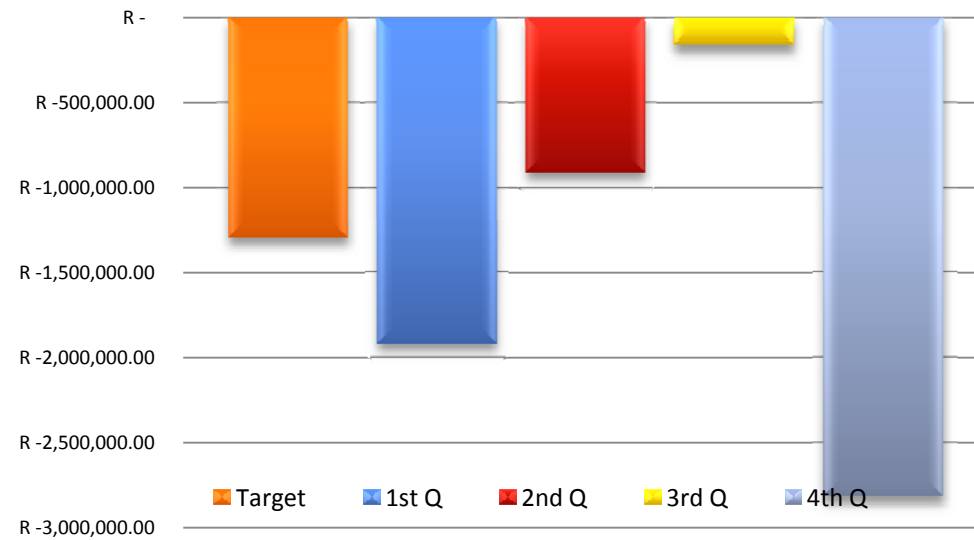
**Total trade creditors outstanding longer than 30 days****Comments**

The municipality is slowly succeeding in bring the trade creditors down. In the third quarter it has dropt below R 10 million for the first time.

**Total amount of pension and medical aid contributions outstanding per month (MFMA s 125)****Comments**

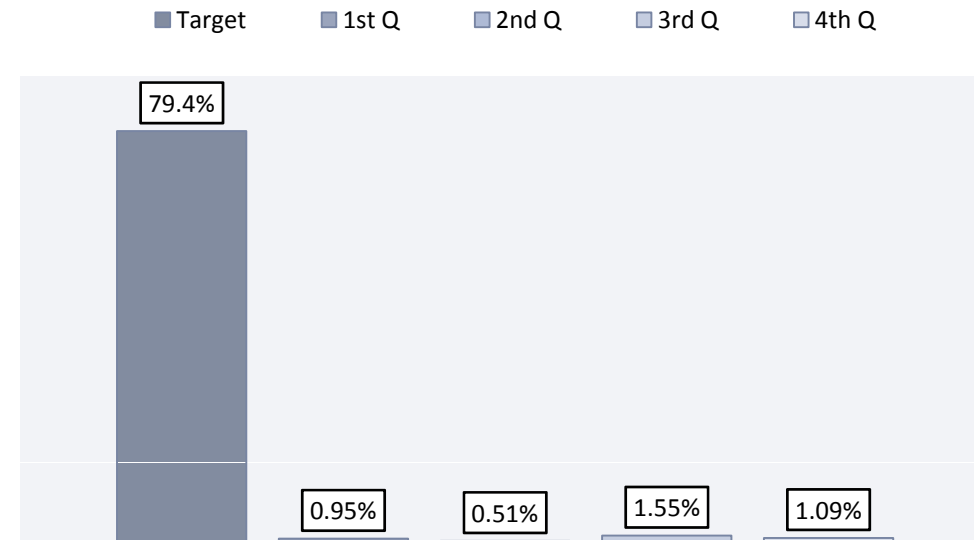
The municipality has been able to start paying salary creditors per month since February 2007 and has also reached repayment agreements with most of the salary creditors. This can be seen in the graph as the salary creditors has not grown since the first quarter.

## Amount outstanding on bank account



The municipality is working on an overdraft due to the negative cash flow. It has however already implement a cash flow plan that will ensure that the overdraft be fully repaid at 30 June 2008.

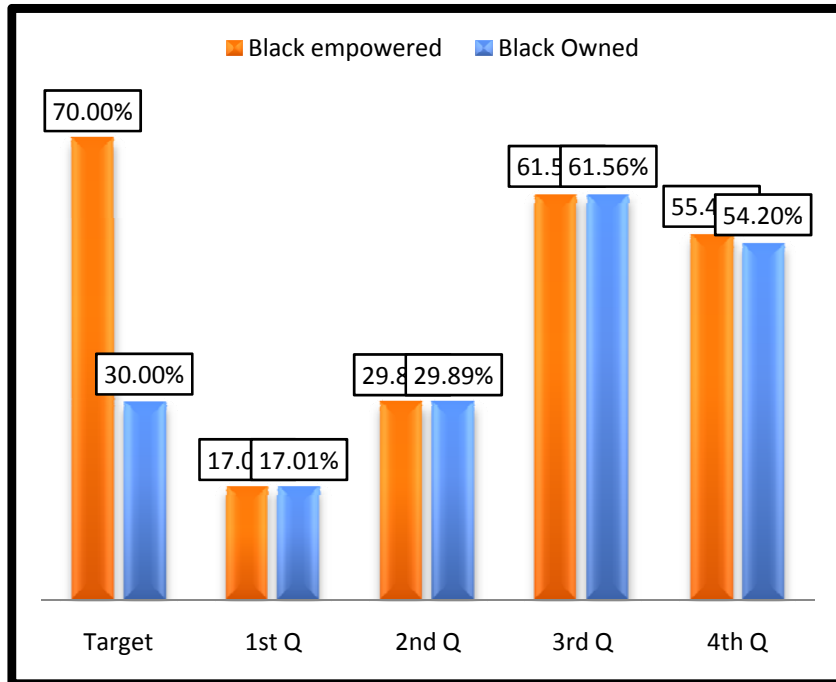
## % queries or complaints received from total accounts sent out



During the financial year the municipality embarked on an exercise to verify data to ensure that the accounts that are sent out to consumers are correct.

The number of queries received is very low in comparison to the total number of accounts sent out. This is a clear indication that the data purification exercise is working.

% of expenditure on external service providers paid to:

**Comments**

The municipality has implemented a Supply Chain policy and this will help to improve the BEE component.

The municipality have clearly shown their commitment to black economic empowerment. The majority of the municipalities expenditure is on black empowered businesses. However the municipality's expenditure on black owned enterprises have increased dramatically in the 3<sup>rd</sup> quarter and did the municipality exceed the target.

No of indigent households receiving free basic services

**Comments**

The municipality's indigent register is a dynamic register and is updated on a permanent basis.

If the statistics from STATSSA is however compared to the indigent register then there are still consumers that do not want to come forward to be registered.

The municipality is also making use of the field workers who is doing data purification to try and find these consumers.

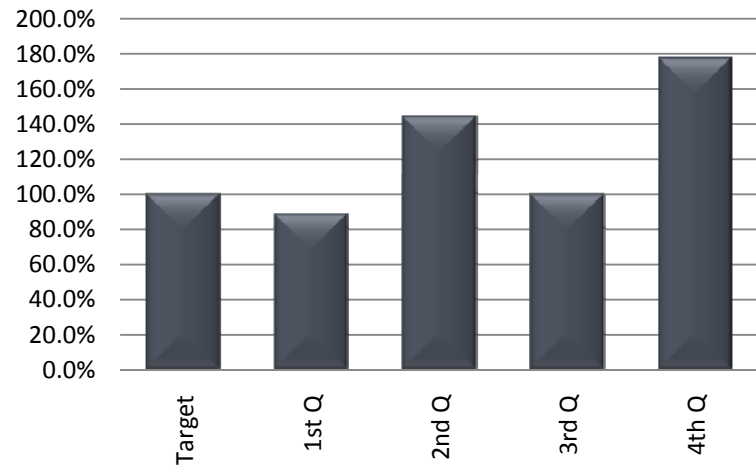
## OFFICE OF THE MUNICIPAL MANAGER

## Key Performance Indicators not completed

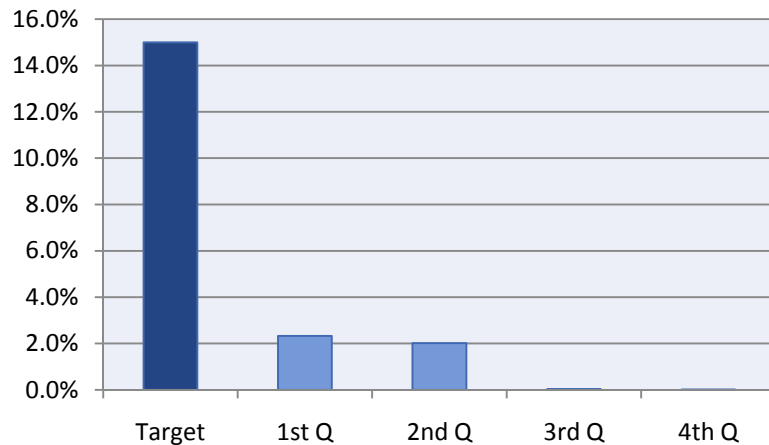
Key Performance Indicator	Remarks
IDP steering committee meetings held	No data supplied
Council resolutions implemented (Council & EXCO)	No data supplied
No of customer satisfaction surveys conducted	No data supplied
Customer satisfaction surveys	No surveys conducted
No of Audit committee meetings held	No data supplied
No of poverty alleviations programs implemented	No data supplied
Total SMME's established	No data supplied
Emerging farmers established	No data supplied
No of documents placed on the website within 5 days after being tabled or required to be made public	No data supplied

The collection of data is essential for the performance management system to function effectively. Data must be collected in the format necessary for measurement of performance. If the performance management system is not properly maintained and implemented the conclusions that may be drawn from the system will be viewed as corrupted and information supplied regarding performance will always be viewed as possibly corrupt and not easily believed by the users of the system.

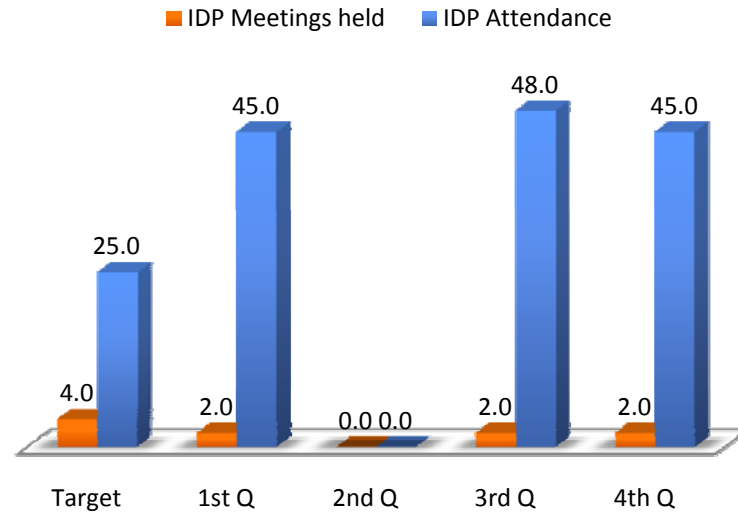
Total No of ward meetings actually held vs ward meetings scheduled with community



% of population attending ward meetings



No IDP Representative Forum meetings held and attendance



#### Comments

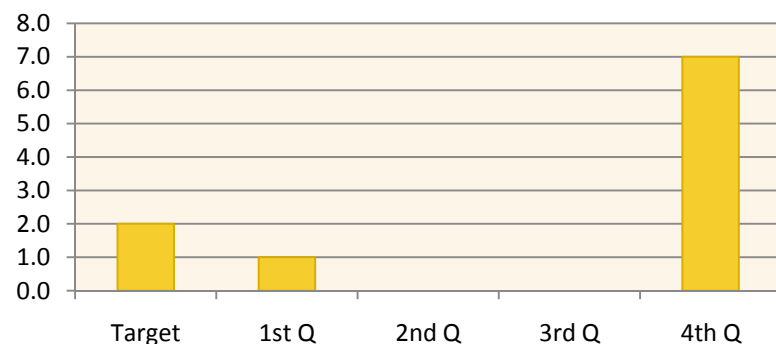
The target with regard to the holding of ward committee meetings have been achieved.

The attendance of ward meetings by the community is however an area of concern. An attendance of between 2% and 4% shows a limited participation of the community in the municipality. Effort should be made by councillors and officials to get more members of the community involved. Advertising of the ward meetings should also be done well in advance.

The number of IDP Rep Forum meetings held also shows a lack of commitment from the municipality in the Integrated Development process. The attendance of the two meetings is also a concern.



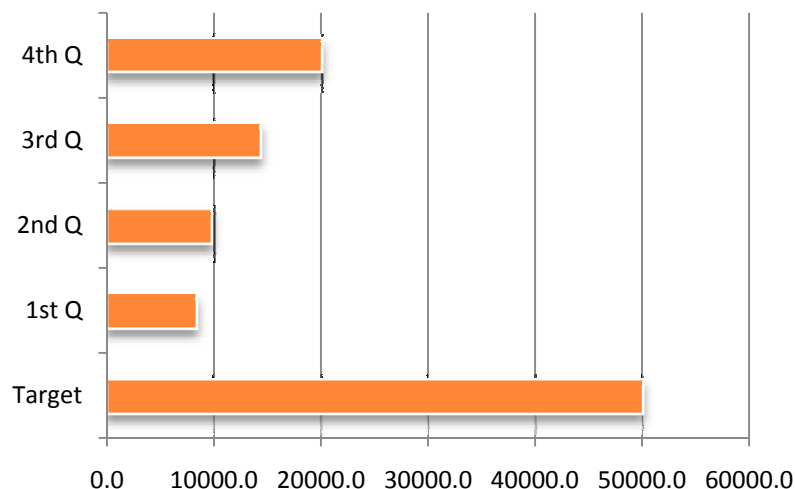
No of public hearings held for conveying PMS results



#### Comments

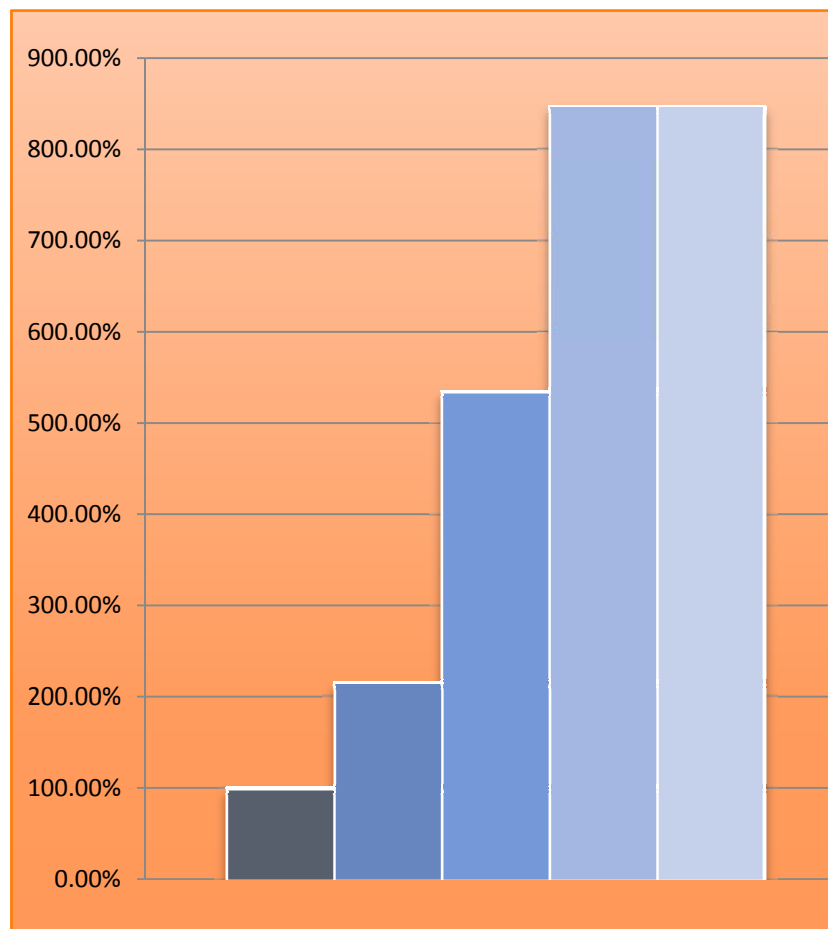
At least one public hearing were held for the conveying of PMS results with the public. The target should be achieved by the municipality when the mid-year performance assessment report is discussed with the public.

Expenditure on subsidized burials

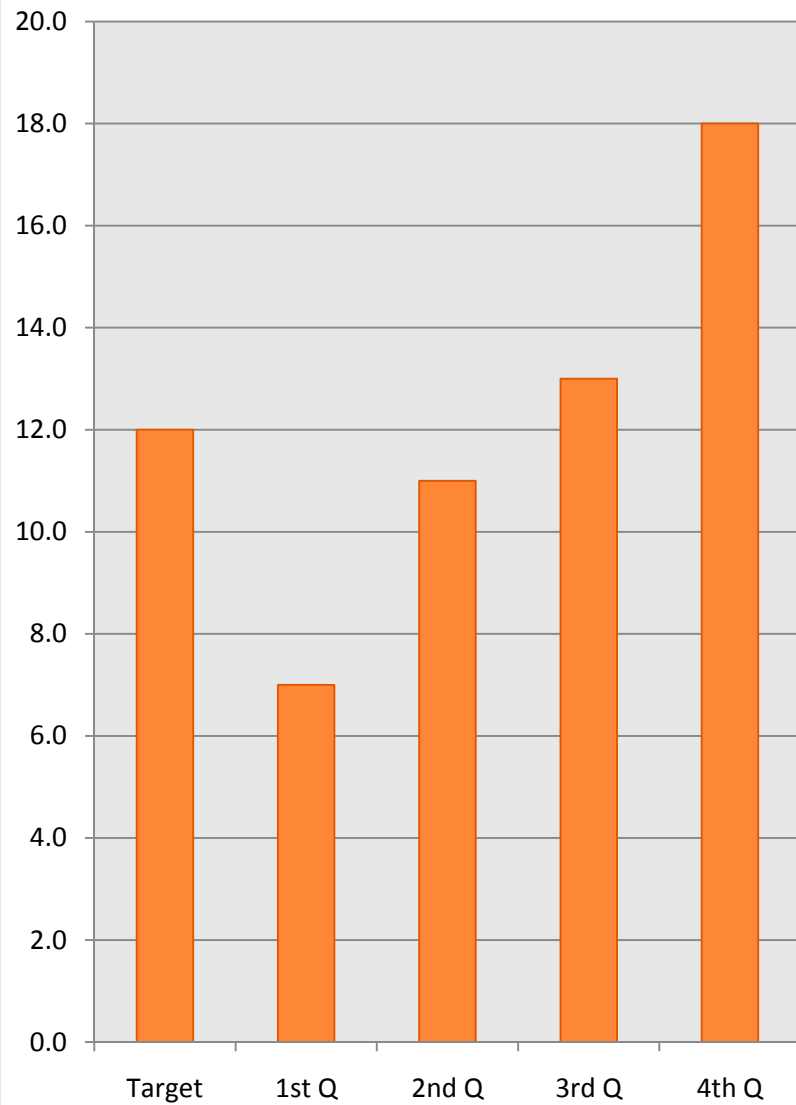


Expenditure on subsidized burials is not as high as anticipated and should the target be reviewed in the new financial year. It seems as if expenditure on LED projects have increased dramatically. However this spending is not reflected in the number of SMME's established or in an increase in job creation.

Spending on LED projects against LED budget



#### Youth programmes implemented



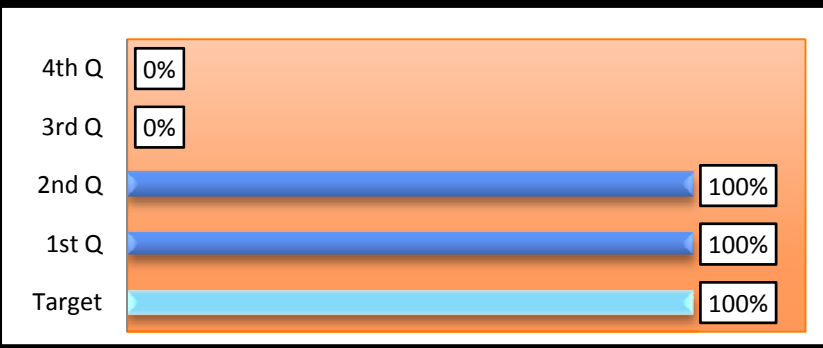
#### Comments

The target have been achieved by the municipality. The following youth programmes were implemented:

- Mayoral soccer tournament
- Collection database
- Establishment of SMME's
- Graduates without work

## COUNCIL FUNCTIONING

### Council meetings held according to schedule

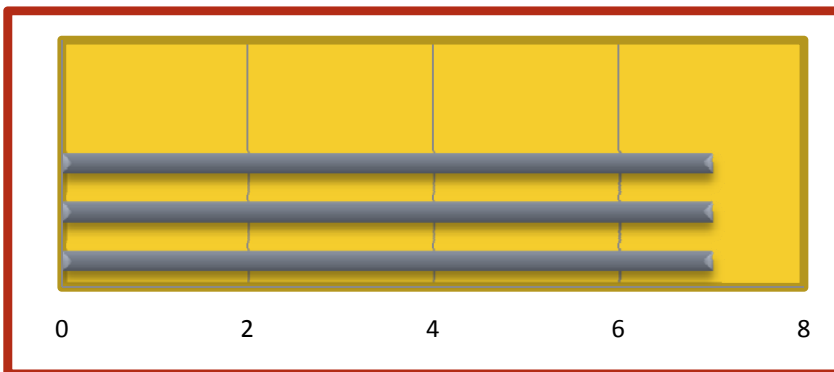


#### Comments

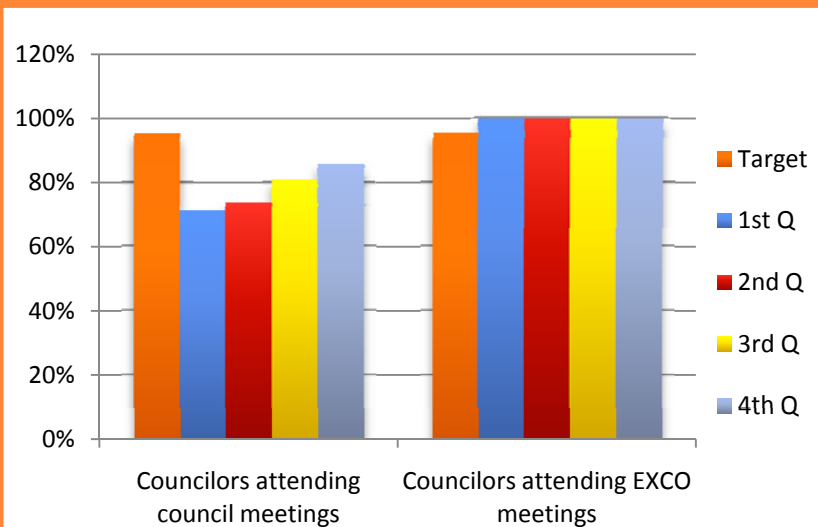
Attendance of councillors at meetings is exceptional. The commitment by councillors to attend meetings is however not reflected in the decision making process. 100% of the items that were placed before council in the 1<sup>st</sup> and 2<sup>nd</sup> quarter was referred back to the next council meeting.

Similarly 50% of the items placed before EXCO was referred back from EXCO. The reasons for not taking decisions should be investigated and action taken to correct this state of affairs. The lack of decision making will surely have a negative impact on service delivery.

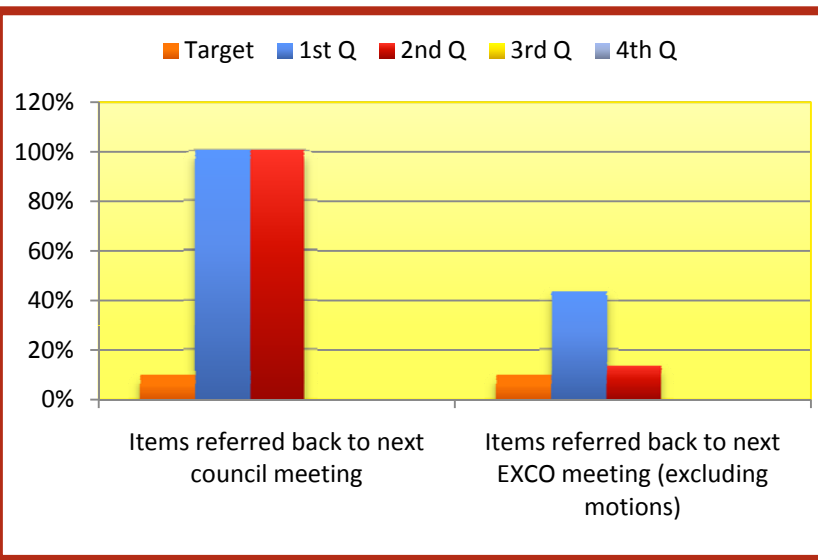
### Average time that agendas are circulated before council meeting



### Councillors attending council meetings

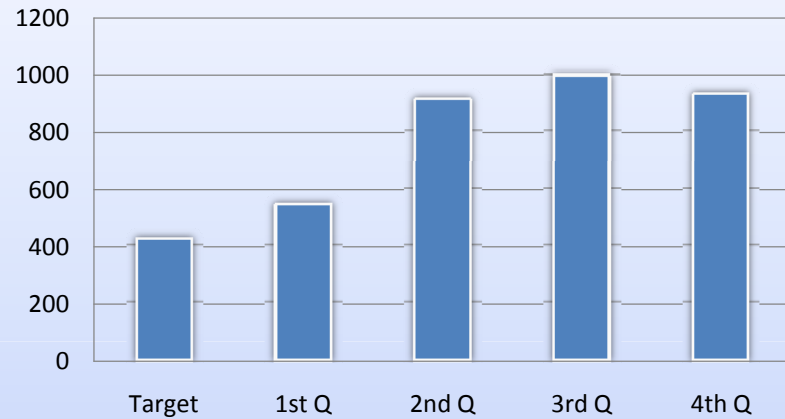


### Items referred back

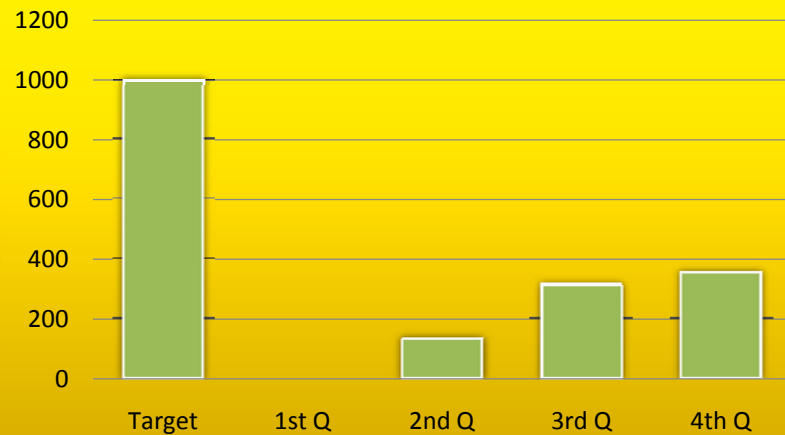


## TECHNICAL SERVICES

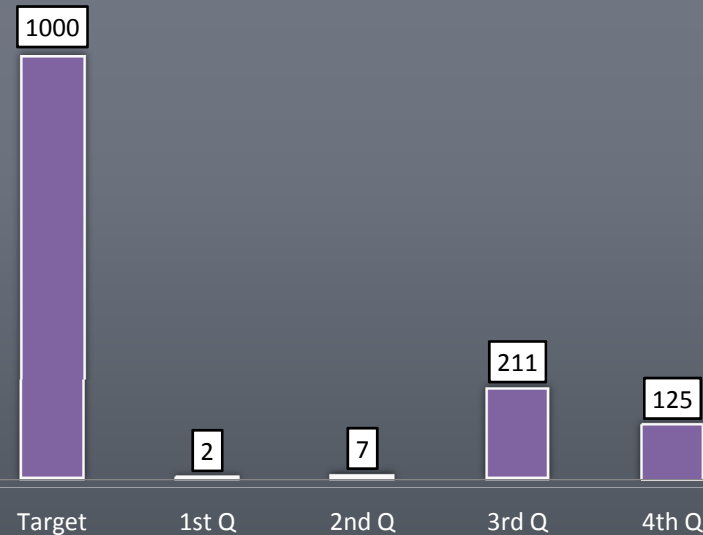
### Existing Informal Housing



### New RDP houses completed



### Serviced erven available for housing

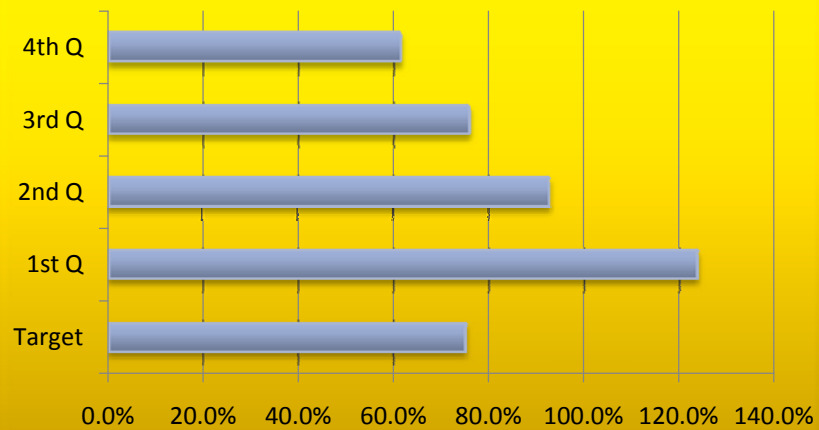


### Comments

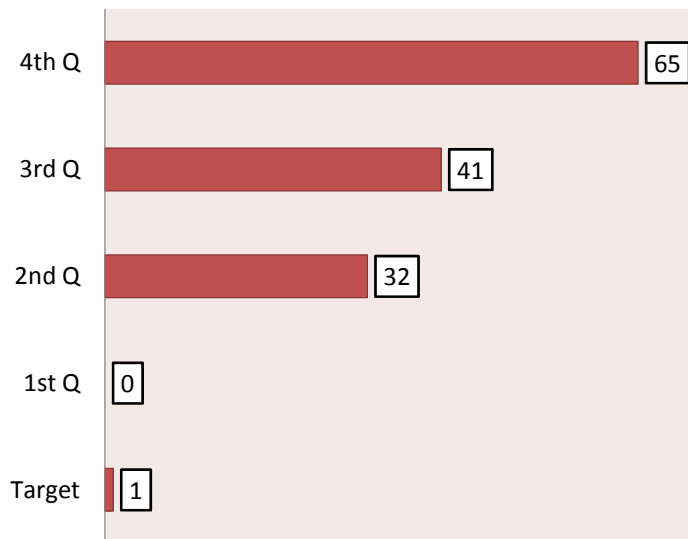
The provisioning of new housing to the homeless is falling far short of the target that the municipality wished to achieve. The municipality is however only the implementing agent for National Government and can only provide housing to the extent that it is enabled to do so by Government.

The target to build a 1000 houses should also be reviewed during the next financial year in order to ensure a more realistic target based on the financial resources made available to the municipality for this purpose

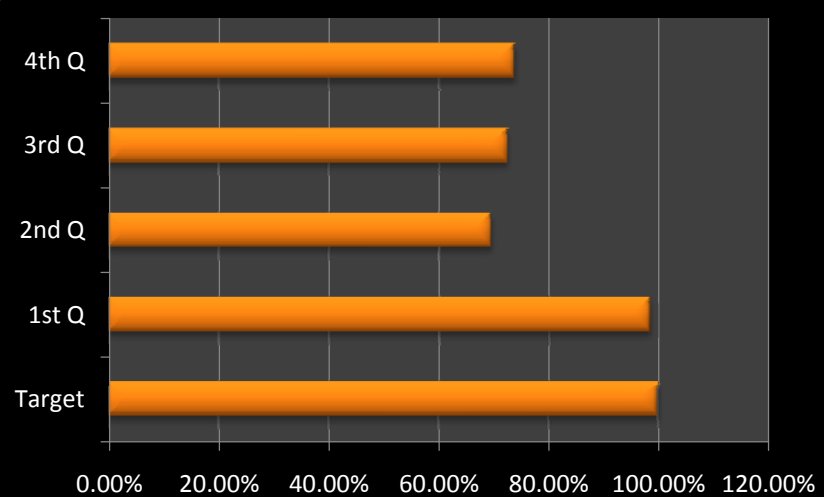
Spending on maintenance of vehicles and equipment against budget



Number of breakage's or faults reported for fleet



Percentage of budget spent on fuel for vehicle fleet



Comments

The provision on the budget for the maintenance of council vehicles and equipment is not sufficient to maintain an effective fleet of vehicles and equipment. It is apparent that spending on the fleet far exceeds the budgetary provisions. This is also reflected in the numbers of breakages and faults reported for the fleet and equipment.

The spending on fuel is far below budget and is more than likely the result of the high incidence of breakages in the municipality's fleet.

Maintenance on council buildings is also not done effectively. The lack of maintenance will have a detrimental effect on the municipality at a later stage as was seen in the maintenance of infrastructure. The lack of maintenance created a constant loss for the municipality in water and electricity provision.

### Closing Remarks

The municipality have implemented the performance management system effectively over the past three years. For the 2007/2008 financial year the municipality will increase the number of performance indicators to ensure performance measurement is expanded to areas that are currently not covered. The municipality will also attempt to better define some of the existing key performance indicators to ensure a better understanding of the current indicators.

The focus of the municipality for the next two years will be on service delivery and customer satisfaction.



**AUDITED ANNUAL FINANCIAL STATEMENTS**  
**2007/2008**

## CHAPTER 6

### KOPANONG LOCAL MUNICIPALITY: Audited Annual Financial Statements

#### Report on the outstanding debtors as on 30 June 20067 by the Accounting Officer

The total outstanding debt as on the 30<sup>th</sup> of June 2007 amounts to R 56 599 295.

The age analysis of the debt is as follows:

Current:	R 3 308 222
60 days:	R 1 800 035
90 days:	R 1 491 726
More than 90 days:	R 49 999 312
Total:	R 56 599 295

Although the municipality knows that a large part of the debt outstanding more than 90 days will not be collected, it is the policy of the municipality not to write of any outstanding debt unless all means of collection has failed. Therefore the only debt that is currently written of is when a consumer is registered for the first time as an indigent and his/her application has been approved.

The municipality has appointed Vericred to collect all debt outstanding older than 60 days and they will supply the municipality with a list of uncollectible debt on a monthly basis to be submit to Council for approval to be written off. The municipality also has an internal credit control section which restricts services for current accounts not paid.

On 30<sup>th</sup> June 2007 the accumulated Bad Debt Reserve of the municipality amounted to R 34 632 056 and the % of outstanding debt covered by the Bad Debt provision is 61%.

It is therefore the municipality's opinion that without detailed information on the debtor's book that at least 61% of the outstanding debt are not collectable and will be written off as and when information is been obtain from Vericred. The above percentage will be increased or decreased as the information on the debtor's book become clearer through continuous debt collection and credit control.

## INDEX

	Page
General Information	92
Councillors	93
Treasurer's Report	94
Accounting Policies	96
Balance Sheet	99
Income Statement	100
Cashflow Statement	101
Notes to the Statements	102
Annexure A	113
Annexure B	114
Annexure C	115
Annexure D	117
Annexure E	118
Annexure E1	119
Annexure F	120

## Kopanong Local Municipality

### GENERAL INFORMATION

**Executive Committee:** Councillor: VI Jonas  
Councillor: ME Maema  
Councillor: HM Hagemann

#### Grading of the Municipality:

**Auditors:** Auditor-General  
Bloemfontein

**Bankers:** First National Bank: Trompsburg

**Registered Office:** Xhariep District Municipal Building  
Louw Street  
Trompsburg  
9913  
P O Box 23  
Trompsburg  
9913

**Telephone:** 051 713 9200

**Fax:** 051 713 0292

**E-mail:** [mm.kopanong@xhariep.co.za](mailto:mm.kopanong@xhariep.co.za)

#### Approval of the Financial Statements

The Financial Statements had been approved by the Municipal Manager on: 31 August 2007



Municipal Manager  
TS Mantshiyane  
31 August 2007



Chief Financial Officer  
W Mphikeleli

## MEMBERS OF KOPANONG MUNICIPALITY

### COUNCILLORS:

V I Jonas	Mayor
T X Matwa	Speaker
H M Hagemann	Member of the Executive Committee
M E Maema	Member of the Executive Committee
M E Peterson	
B M M Moitse	
N G Mgqaliso	
A J Van Rensburg	
M J Mothupi	
M A Khwinani	
W J Coakley	
M J Moitse	
T J Porota	
D J May	

## THE REPORT FROM THE TREASURER

### 1. OPERATIONAL RESULTS

Information of the operational results per department, classification and purpose is shown in annexure E. The operational results as on 30 June 2007 is as follows :

	ACTUAL	ACTUAL	DEVIATION	BUDGET	DEVIATION
	2006	2007	2006/2007	2007	ACTUAL
<b>INCOME</b>	2006	2007	2006/2007	2007	BUDGET
	R	R	%	R	%
Surplus	0	0	0.00	0	0.00
Operational Income for the year	67,962,964	86,338,301	27.04	77,162,472	11.89
Deficit at the end of the year	22,611,792	19,392,139	-14.24	0	-100.00
	<b>90,574,756</b>	<b>105,730,440</b>	<b>16.73</b>	<b>77,162,472</b>	<b>37.02</b>
<b>EXPENDITURE</b>					
Deficit	24,969,892	22,611,792	-9.44	0	0.00
Operational Expenditure for the year	65,608,610	87,229,700	32.95	77,101,298	13.14
Sundry Transfer	-3,746	-4,111,052	109645.11	0	0.00
Surplus	0	0	0.00	61,174	0.00
	<b>90,574,756</b>	<b>105,730,440</b>	<b>16.73</b>	<b>77,162,472</b>	<b>37.02</b>

The budget overspend due to the large water accounts from Bloem Water (under budget) and also no provision for bad debt was made in the budget.

#### 1.1 RATES- AND GENERAL SERVICES

	ACTUAL	ACTUAL	DEVIATION	BUDGET	DEVIATION
	2006	2007	2006/2007	2007	ACTUAL
	R	R	%	R	BUDGET
					%
Income	32,967,407	44,857,405	36.07	37,269,356	20.36
Expenditure	35,937,153	48,609,647	35.26	48,674,263	-0.13
Surplus/(Deficit)	-2,969,746	-3,752,242	26.35	-11,404,907	-67.10
Surplus/(Deficit) as % of income	-9.01	-8.36		-30.60	

#### 1.2 TRADING SERVICES

##### 1.2.1 ELECTRICITY SERVICE

	ACTUAL	ACTUAL	DEVIATION	BUDGET	DEVIATION
	2006	2007	2006/2007	2007	ACTUAL
	R	R	%	R	BUDGET
					%
Income	17,053,931	19,781,874	16.00	17,957,584	10.16
Expenditure	14,194,869	16,147,170	13.75	15,457,410	4.46
Surplus/(Deficit)	2,859,062	3,634,704	27.13	2,500,174	45.38
Surplus/(Deficit) as % of income	16.76	18.37		13.92	

	R	R	%	R	%
Income	17,941,626	20,500,509	14.26	21,935,533	-6.54
Expenditure	15,475,455	22,345,540	44.39	12,969,625	72.29
Surplus/(Deficit)	2,466,171	-1,845,031	-174.81	8,965,908	-120.58
Surplus/(Deficit) as % of income	13.75	-9.00		40.87	

## 2. CAPITAL EXPENDITURE AND FINANCING

The expenditure for fixed assets during the year amounts to R 27 035 488

	2007 ACTUAL	2007 BUDGET	2006 ACTUAL
Roads and storm water	718,902	1,780,000	948,326
Other infrastructure	26,020,123	19,632,923	8,551,642
Buildings	0	0	0
Other fixed assets	296,463	929,567	454,882
	<b>27,035,488</b>	<b>22,342,490</b>	<b>9,954,850</b>

The financing of the above are as follows:

	2007 ACTUAL	2007 BUDGET	2006 ACTUAL
Capital development fund	0	0	0
Contr. from income	1,142,332	1,869,567	454,368
Donations	25,750,140	20,472,923	9,500,482
Donations: Public	143,016	0	0
External loans	0	0	0
Land Trust Fund	0	0	0
	<b>27,035,488</b>	<b>22,342,490</b>	<b>9,954,850</b>

A complete analysis of capital expenditure (budget and actual) per department, classification or service is shown in annexure C. More information of external loans and internal advances that was used to financed the fixed assets are shown in annexure B.

## 3. EXTERNAL LOANS, INVESTMENTS AND CASH

On 30 June 2007 the total outstanding external loans was R 3 781 799 (R 83 617 in 2006) as shown in annexure B. During the year no loans was received. Loans of R 3 706 280 occurred by Centlec was brought in.

Investments amounts to R 8 808 544 on 30 June 2007 ( R 1 978 656 in 2006).

More information of external loans and investments is shown in Notes (3 and 6) and annexure B of the financial statements.

## 4. FUNDS AND RESERVES

More information of funds and reserves is shown in Notes (1 to 2) and annexure A of the financial statements.

## 5. EXPRESSION OF THANKS

My thanks go to the Mayor, Councilors, the Municipal Manager and Executive Heads for the support that they gave to me and my personnel, and also to the local representative of the Auditor-General and the auditors that were appointed by him.

A special thanks go to all my personnel. Without them this work would have be impossible.



MR. MW MPHIKELELI

## **ACCOUNTING POLICIES**

### **1. BASIS OF PRESENTATION**

- 1.1. The financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Treasurers and Accountants in its Code of Practice (1992) and Report on Published Annual Financial Statements (Second Edition – January 1996).
- 1.2. The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy – Note 3. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.
- 1.3 The financial statements are prepared on the accrual basis stated:
  - Income is accrued when measurable and available to finance operations. Certain direct income is accrued when received, such as traffic fines and certain licenses.
  - Expenditure is accrued in the year it is incurred.

### **2. CONSOLIDATION**

The financial statements include the Rate and General services, Housing services, Trading services and the different funds and reserves. All inter departmental charges are set-off against each other, with the exception of assessment rates, refuse removal, sewerage, electricity and water, which are treated as income and expenditure in the respective departments.

### **3. FIXED ASSETS**

- 3.1 Fixed Assets are stated:
  - At historical cost, or
  - At valuation (based on the market price at the date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life as determined by the Treasurer

#### **3.2 Depreciation**

The balance shown against the heading “Loans Redeemed and Other Capital Receipts” in the notes to the balance sheet is tantamount to a provision for depreciation however, certain structural differences do exist. By way of this “Provision” assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

- Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
- Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the “Loans Redeemed and Other Capital Receipts” account.



3.3 Fixed assets are financed from different sources, including external loans, operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charges to the service concerned at the ruling interest rate applicable at the time that the advance is made.

3.4 All net proceeds from the sale of fixed property are credited to the Erven Trust Fund. Net proceeds from the sale of all other assets are credited to the Capital Development Fund.

#### **4. FUNDS AND RESERVES**

##### **CAPITAL DEVELOPMENT FUND**

The Ordinance requires a minimum contribution of 1.00% of the previous year's income.

##### **ERVEN TRUST FUND**

All proceeds of sale of land and buildings must be deposited into this fund. The fund is then use for payments towards the acquiring of new land and/or buildings. Interest on internal advances from this fund must be deposited into this fund as well as any interest earned on the outstanding balance of the fund.

##### **EXTERNAL FINANCING FUND**

All MIG and SMIF Grants are deposited into this fund. The fund is then used to finance all MIG and SMIF capital projects. Interest earned on this fund is transferred to the operating income of the municipality.

#### **5. SURPLUSES AND DEFICITS**

Any surpluses or deficits arising from the operation of Electricity and Water services are transferred to Rates and General Services.

#### **6. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES**

The cost of internal support services are transferred to the different services in accordance with the Institute Report on Accounting for Support Services (June 1990).

#### **7. INVESTMENTS**

Investments are shown at the lower of cost or market value if a permanent decline in the value occurred.

#### **8. INCOME RECOGNITION**

##### **Electricity and Water Billings**

Meters on all properties are read and billed monthly.

##### **Assessment Rates**

Assessment rates are levied on land and improvement of properties and rebates are granted according to the use of which the property is used.

##### **Electricity**

Electricity had been contracted out to CENTLEC who delivers the service on behalf of the Municipality by means of a Service Level Agreement. The Municipality had therefore not budgeted for the expenditure or income on the service but only for the budgeted surplus from CENTLEC. This process has however been changed in the 2005/2006 financial year as the Municipality budgeted for all expenditure and income.

#### Electricity Billing

Income is accrued when a monthly levy is raised. Meters on properties are read and billed monthly.

#### Pre-paid Electricity

Income is accrued when the cash is received at the vending point.

### **9. INVENTORY**

The inventory is very old and is therefore valued at the original cost when it was purchased.

The Municipality has some game that is shown in the Financial Statements under inventory and the value is determined according to the prices fetched during the hunting season.

### **10. RETIREMENT BENEFITS**

The retirement benefit plan is subject to the Pensions Act, 1956, with pensions being calculated on the final pensionable remuneration paid. Current contributions are charged against operating income on the basis of current service costs.

### **11. PROVISIONS**

#### LEAVE PROVISION

The municipality will calculate each year the value of the total leave available to employees and adjust the provision to this value. Leave paid out will be debited against the Leave Provision.

#### BONUS PROVISION

The municipality is calculating the value of the pro-rata bonuses of employees as on year end and will make a provision equal to this amount. All pro-rata bonuses will be paid from the provision.

#### AUDIT FEES PROVISION

Provision for audit fees is been made at year end each year. The provision is used to pay the account of the Auditor General each year.

#### BAD DEBT PROVISION

The expected bad debt is calculated each year by the municipality and the Bad Debt Provision is then adjusted to the calculation. All bad debt written off is debited to the provision.

**BALANCE SHEET AT 30 JUNE 2007**

	NOTES	2007 R	2006 R
<b>CAPITAL EMPLOYED</b>			
FUNDS AND RESERVES		20,878,845	12,107,896
ACCUMULATED FUNDS	2	20,878,845	12,107,896
HOUSING ACT 107/97	1	511,395	511,395
(ACCUMULATED DEFICIT)		-19,392,139	-22,611,792
		1,998,101	-9,992,501
LONG TERM LIABILITIES	3	3,433,155	3,757,747
CONSUMER DEPOSITS	4	714,439	626,269
		6,145,695	-5,608,485
<b>EMPLOYMENT OF CAPITAL</b>			
FIXED ASSETS	5	3,859,044	5,872,746
INVESTMENTS	6	0	20,807
LONG TERM DEBTORS	7	43,106	104,993
		3,902,150	5,998,546
NETT CURRENT ASSETS/(LIABILITIES)		2,243,545	-11,607,031
CURRENT ASSETS		35,005,065	34,947,780
Inventory	8	205,841	330,917
Debtors	9, 10	25,925,938	31,812,575
Cash	13	47,096	807,689
Short Term : Investments	6	8,808,544	1,957,849
Short Term Portion: Debtors	7	17,646	38,750
CURRENT LIABILITIES		32,761,520	46,554,811
Provisions	11	3,710,115	1,998,017
Creditors	12	25,902,406	41,698,460
Short Term Portion: Loans	3	348,644	384,442
Bank Overdraft	13	2,800,355	2,473,892
		6,145,695	-5,608,485

**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

2006 ACTUAL INCOME	2006 ACTUAL EXPENDITURE	2006 SURPLUS (DEFICIT)		2007 ACTUAL INCOME	2007 ACTUAL EXPENDITURE	2007 SURPLUS (DEFICIT)	2007 BUDGET SURPLUS (DEFICIT)
R	R	R		R	R	R	R
32,967,407	35,937,153	-2,969,746	RATES AND GENERAL SERVICES	44,857,405	48,609,647	-3,752,242	-11,200,726
13,629,589	20,024,741	-6,395,152	Community Services	22,685,580	25,369,097	-2,683,517	-19,964,917
1,535,570	1,724,707	-189,137	Subsidised Services	1,940,948	1,935,972	4,976	248,835
17,802,248	14,187,705	3,614,543	Economic Services	20,230,877	21,304,578	-1,073,701	8,515,356
0	1,133	-1,133	Housing Services	1,198,513	127,343	1,071,170	-204,183
34,995,557	29,670,324	5,325,233	Trading Services	40,282,383	38,492,710	1,789,673	11,466,083
67,962,964	65,608,610	2,354,354	TOTAL	86,338,301	87,229,700	-891,399	61,174
		3,746	Appropriations for this year (refer to note 21)			4,111,052	
		2,358,100	Net surplus/(deficit) for the year			3,219,653	
		-24,969,892	Accumulated surplus/(deficit) at the beginning of the year			-22,611,792	
		-22,611,792	Accumulated surplus/(deficit) at the end of the year			-19,392,139	

**CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2007**

	NOTE	2007	2006
		R	R
<b>CASH RETAINED FROM OPERATING ACTIVITIES</b>		33,138,710	9,334,523
Cash generated			
Cash generated by operations	23	-17,154,895	-20,910,917
Investment income	20	375,856	249,021
(Increase) / decrease in operating capital	24	-20,863,586	-6,190,997
		-37,642,625	-26,852,893
Less: External interest paid	20	121,382	98,039
<b>Cash available from operations</b>		-37,764,007	-26,950,932
Cash contributions from the public and State	16	70,902,717	36,285,455
Net proceeds on disposal of fixed assets		0	0
<b>CASH UTILISED IN INVESTING ACTIVITIES</b>			
Investment in fixed assets	5	-27,035,488	-9,954,850
<b>NETT CASH FLOW</b>		6,103,222	-620,327
<b>CASH EFFECTS OF FINANCING ACTIVITIES</b>			
Increase / (Decrease) in long-term loans	25	-360,390	78,040
(Increase) / Decrease in cash investments	26	-6,829,888	-253,876
(Increase)/decrease in cash	27	1,087,056	796,163
<b>Net cash (generated)/utilised</b>		-6,103,222	620,327

**Kopanong Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

	<b>2007 R</b>	<b>2006 R</b>
<b>1. HOUSING DEVELOPMENT FUND</b>		
Housing Development Fund	511,395	511,395
Unappropriated Surplus	511,395	511,395
Loans extinguished by Government on 1 April 1998	-	-
The Housing Development Fund is represented by the following assets and liabilities		
Property, plant and equipment (See note 10)	-	-
Housing selling scheme loans (See note 13)	-	-
Housing rental debtors (See note 15)	-	-
Unauthorised used of cash for other purposes	511,395	511,395
Bank and cash	-	-
Sub-total	511,395	511,395
Creditors	-	-
<b>Total Housing Development Fund Assets and Liabilities</b>	<b>511,395</b>	<b>511,395</b>
<b>2. ACCUMULATED FUNDS</b>		
	20,878,845	12,107,896
Capital Development Fund	7,780,276	6,872,082
External Financing Fund	7,670,278	0
Erven Trust Fund	5,428,291	5,235,814
The Accumulated Funds is represented by the following assets and liabilities		
Property, plant and equipment	2,022,638	2,022,638
Unauthorised used of cash for other purposes	10,047,663	8,106,602
Bank and cash	8,808,544	1,978,656
Sub-total	20,878,845	12,107,896
Creditors	-	-
<b>Total Accumulated Funds Assets and Liabilities</b>	<b>20,878,845</b>	<b>12,107,896</b>
<b>3. LONG-TERM LIABILITIES</b>		
Local Registered Stock loans	-	-
Annuity Loans	3,781,799	4,142,189
Capitalised Lease Liability	-	-
Government Loans: Other	-	-
Sub-Total	3,781,799	4,142,189
Less: Current portion transferred to current liabilities	-348,644	-384,442
Local Registered Stock Loans	-	-
Annuity Loans	-348,644	-384,442
Capitalised Lease Liability	-	-
Government Loans: Other	-	-
<b>Total External Loans</b>	<b>3,433,155</b>	<b>3,757,747</b>
Refer to Appendix A for more details on long-term liabilities		
R 0.00 (2006: R 0.00) has been invested specifically in a ring-fenced account for the repayment of long-term liabilities. See note 34 for more detail.		
The Financial Statements of Centlec had been consolidated during the 2006/07 financial year and the balances as on 30 June 2006 had been corrected from R 499 379 to R 4 557 951.		
<b>4. CONSUMER DEPOSITS</b>		
Water	558,644	506,968
Electricity	155,795	119,301
Interest Paid	-	-
<b>Total Consumer Deposits</b>	<b>714,439</b>	<b>626,269</b>
Deposits do not accrue any interest.		
<b>Guarantees held in lieu of Water Deposits</b>	<b>-</b>	<b>-</b>
The Financial Statements of Centlec had been consolidated during the 2006/07 financial year and the balances as on 30 June 2006 had been corrected from R 506 968 to R 626 269.		

5 **FIXED ASSETS**

Fixed Assets at the beginning of the year	195,157,937	185,203,087
Capital Expenditure for the year	27,035,488	9,954,850
Corrections: New Asset Register	13,800,624	-
Less: Written of, Transferred or Disposed of during the year	381,838	-
<b>Total Fixed Assets</b>	<b>208,010,963</b>	<b>195,157,937</b>
Less: Loans Redeemed and Other Capital Receipts	204,151,919	189,285,191
<b>Net: Fixed Assets</b>	<b>3,859,044</b>	<b>5,872,746</b>

The Financial Statements of Centlec had been consolidated during the 2006/07 financial year and the nett balance as on 30 June 2006 had been corrected from R 1 814 174 to R 5 872 746.

The corrections made during the year on the face of Annexure C is due to the fact that the municipality compiled a new asset register over the last two financial years.

6 **INVESTMENTS**

**Listed**

Senwes Shares	-	20,807
---------------	---	--------

**Financial Instruments**

Fixed Deposits	8,808,544	1,957,849
Total Cash Investments	8,808,544	1,957,849
<b>Total Investments</b>	<b>8,808,544</b>	<b>1,978,656</b>

The total amount of cash investments R 1 685 550 is ceded to FNB to cover the current overdraft facility

No investments had been written off during the financial year

The average interest rate on the cash investments was: 04.23%

7 **LONG-TERM DEBTORS**

Gariep Dam Housing Selling Scheme	60,752	143,743
Less: Current portion transferred to current receivables	17,646	38,750
<b>Total Long-term Receivables</b>	<b>43,106</b>	<b>104,993</b>

**Gariep Dam Housing Selling Scheme**

The former Gariep Dam Transitional Local Council sold houses to the community and the loans are repayable over a ten year period and the interest rate was fixed at 10%.

8 **Inventory**

Consumable Stores at cost	65,141	227,517
Game	140,700	103,400
<b>Total Inventory</b>	<b>205,841</b>	<b>330,917</b>

**CONSUMER DEBTORS**  
**As at 30 June 2007**

	<b>Gross Balance</b>	<b>Provision Bad Debt</b>	<b>Net Balance</b>
Service Debtors	56,537,001	33,788,615	22,748,386
Rates	13,602,458	5,456,509	8,145,949
Centlec Electricity	919,409	316,270	603,139
Water	5,915,798	2,209,543	3,706,255
Sewerage	6,178,031	2,556,421	3,621,610
Drain Blockages	612	297	315
Refuse Removal	4,565,127	1,892,522	2,672,605
Arrears SAMRAS	4,744,227	2,367,178	2,377,049
Arrears SAMRAS (VAT)	17,152,542	16,262,126	890,416
Arrears	184,289	91,173	93,116
Arrears (VAT)	3,274,508	2,636,576	637,932
Sundry	-	-	-
House Rent	1,943,697	843,441	1,100,256
Less: Payments in advance	-1,881,403	-	-1,881,403
<b>Total</b>	<b>56,599,295</b>	<b>34,632,056</b>	<b>21,967,239</b>

Consumer Debtors of R 6 104 992.66 had been written off during the year (2006: R 0)

**As at 30 June 2006**

Service Debtors	51,944,180	23,381,650	28,562,530
Rates	8,524,705	3,839,536	4,685,169
Centlec Electricity	733,415	316,270	417,145
Water	8,704,110	3,920,340	4,783,770
Sewerage	4,332,234	1,951,243	2,380,991
Drain Blockages	550	248	302
Refuse Removal	3,270,444	1,473,011	1,797,433
Arrears SAMRAS	5,086,255	2,290,854	2,795,401
Arrears SAMRAS (VAT)	17,787,833	8,011,658	9,776,175
Arrears	190,951	86,005	104,946
Arrears (VAT)	3,313,683	1,492,485	1,821,198
Sundry	-	-	-
House Rent	1,860,151	-	1,860,151
Less: Payments in advance	-2,229,768	-	-2,229,768
<b>Total</b>	<b>51,574,563</b>	<b>23,381,650</b>	<b>28,192,913</b>

The Financial Statements of Centlec had been consolidated during the 2006/07 financial year and the balances as on 30 June 2006 had been corrected from R 27 775 768 to R 28 192 913.

	<b>2007 R</b>	<b>2006 R</b>
<b>Rates: Ageing</b>		
Current (0-30 days)	1,233,454	772,473
31 - 60 Days	771,860	515,381
61 - 90 Days	684,126	459,357
+ 120 Days	10,913,018	6,777,494
<b>Total</b>	<b>13,602,458</b>	<b>8,524,705</b>
<b>Water: Ageing</b>		
Current (0-30 days)	834,075	384,728
31 - 60 Days	407,818	339,224
61 - 90 Days	254,819	376,801
+ 120 Days	4,419,086	7,603,357
<b>Total</b>	<b>5,915,798</b>	<b>8,704,110</b>



**Sewerage: Ageing**

Current (0-30 days)	478,985	347,073
31 - 60 Days	312,159	246,853
61 - 90 Days	274,045	220,058
+ 120 Days	5,112,842	3,518,250
<b>Total</b>	<b>6,178,031</b>	<b>4,332,234</b>

**Drainblockages: Ageing**

Current (0-30 days)	6	-
31 - 60 Days	6	-
61 - 90 Days	6	-
+ 120 Days	594	550
<b>Total</b>	<b>612</b>	<b>550</b>

**Refuse Removal: Ageing**

Current (0-30 days)	351,644	251,765
31 - 60 Days	227,761	180,986
61 - 90 Days	200,679	161,746
+ 120 Days	3,785,043	2,675,947
<b>Total</b>	<b>4,565,127</b>	<b>3,270,444</b>

**Arrears SAMRAS: Ageing**

Current (0-30 days)	9,870	-
31 - 60 Days	-	-
61 - 90 Days	-	-
+ 120 Days	4,734,357	5,086,255
<b>Total</b>	<b>4,744,227</b>	<b>5,086,255</b>

**Arrears SAMRAS VAT: Ageing**

Current (0-30 days)	11,687	-
31 - 60 Days	-	-
61 - 90 Days	-	-
+ 120 Days	17,140,855	17,787,833
<b>Total</b>	<b>17,152,542</b>	<b>17,787,833</b>

**Arrears: Ageing**

Current (0-30 days)	1,943	-
31 - 60 Days	-	-
61 - 90 Days	-	-
+ 120 Days	182,346	190,951
<b>Total</b>	<b>184,289</b>	<b>190,951</b>

**Arrears VAT: Ageing**

Current (0-30 days)	1,355	-
31 - 60 Days	-	-
61 - 90 Days	-	-
+ 120 Days	3,273,153	3,313,683
<b>Total</b>	<b>3,274,508</b>	<b>3,313,683</b>

**Sundry: Ageing**

Current (0-30 days)	-	-
31 - 60 Days	-	-
61 - 90 Days	-	-
+ 120 Days	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

**House Rent: Ageing**

Current (0-30 days)	98,334	160,519
31 - 60 Days	80,431	147,770
61 - 90 Days	78,051	145,655
+ 120 Days	1,686,881	1,406,207
<b>Total</b>	<b>1,943,697</b>	<b>1,860,151</b>

**Centlec Electricity: Ageing**

Current (0-30 days)	286,869	100,875
31 - 60 Days	-	-
61 - 90 Days	-	-
+ 120 Days	632,540	632,540
<b>Total</b>	<b>919,409</b>	<b>733,415</b>

**10 OTHER DEBTORS**

Bethanie Project	-	307,561
Projects to Improve Cash Flow	-	11,276
Project Consolidate	-	99,749
Sewer Project	-	218,826
IDP	-	865,039
Personnel Advances	-	1,150
Councilor Advances	-	53,145
Town Clerk Car Loan	-	60,129
CENTLEC Debtor Provision	-	430,448
VAT	3,005,950	357,350
Centlec: Pre-paid Sales	101,004	-
Centlec: Bank	66,721	553,856
Arrear Contributions	-	829
Springfontein Erven	-	292,034
MSIG	256,581	-
Health Debtor Provision	525,643	143,319
Human Resource System	-	111,910
Pensioners Medical Aid	-	110,241
Deposit Telephone Line	2,800	2,800
<b>Total</b>	<b>3,958,699</b>	<b>3,619,662</b>

The Financial Statements of Centlec had been consolidated during the 2006/07 financial year and the balances as on 30 June 2006 had been corrected from R 2 708 456 to R 3 065 806.

**11 PROVISIONS**

	3,710,115	1,998,017
Audit Fees Provision	771,013	567,565
Bonus Provision	666,904	-
Leave Provision	2,272,198	1,430,452

The Provisions is represented by the following assets and liabilities

Unauthorised used of cash for other purposes	3,710,115	1,998,017
Bank and cash	-	-
Sub-total	3,710,115	1,998,017
Creditors	-	-
<b>Total Provisions Assets and Liabilities</b>	<b>3,710,115</b>	<b>1,998,017</b>

12 **CREDITORS**

Trade Creditors	9,549,313	19,469,351
Salary Creditors	11,133,189	12,668,321
<b>Total Trade Creditors</b>	<b>20,682,502</b>	<b>32,137,672</b>
Bethulie Sewer Project	-	561,996
LED Craft Center	-	36,848
Councilor's Allowances	134,720	453,196
Lotto: Sports Grounds Project	474,724	823,285
Unallocated Deposits	-	2,167,290
Water Project	-	70,620
SITA Refund	96,212	21,653
SARS: VAT	-	776,771
Transitional Grant	-	1,012,629
Customer Care Center	-	18,014
National Treasury Grant	825,694	1,154,577
Arts & Culture	500,000	500,000
DBSA Grant	101,282	-
Auction Money	568,878	-
Survey of Erven	85,200	-
Drought Relieve	414,066	500,000
Cash Control Account	1,486,908	721,922
Bethulie Housing Deposits	14,665	14,665
DBSA Creditor	517,555	415,762
MSIG	-	249,008
Other Deposits	-	62,552
<b>Total Other Creditors</b>	<b>5,219,904</b>	<b>9,560,788</b>
<b>Total Creditors</b>	<b>25,902,406</b>	<b>41,698,460</b>

The Financial Statements of Centlec had been consolidated during the 2006/07 financial year and the balances as on 30 June 2006 had been corrected from R 40 123 376 to R 41 282 698.

13 **BANK, CASH AND OVERDRAFT BALANCES**

The municipality has the following bank accounts:-

**Current Account (Primary Bank Account)**

First National Bank - Trompsburg Branch  
Account Number: 62021950276

Cash book balance at beginning of the year (Overdrawn)	2,473,892	1,504,261
Cash book balance at end of the year (Overdrawn)	2,800,355	2,473,892
<b>Interest paid on Overdraft</b>	121,382	98,039

**Current Account**

Standard Bank - Jagersfontein Branch  
Account Number: 04 191 730 8

Cash book balance at beginning of the year	108,133	53,492
Cash book balance at end of the year	14,877	108,133

**Current Account**

ABSA Bank - Edenburg Branch  
Account Number: 24 6014 2140

Cash book balance at beginning of the year	687,172	569,345
--	---------	---------

Cash book balance at end of the year	19,835	687,172
--------------------------------------	--------	---------

<b><u>Petty Cash and Floats</u></b>	12,384	12,384
-------------------------------------	--------	--------

14 **PROPERTY RATES****Actual**

Residential	5,860,118	4,754,435
Commercial	940,421	527,712
Government	1,623,585	1,227,223
<b>Total Assessment Rates</b>	<b>8,424,124</b>	<b>6,509,370</b>

**Valuations**

Residential	173,042,341	171,592,201
Commercial	33,325,815	20,103,315
Government	80,325,765	77,309,865
Municipal	35,583,525	35,583,523
<b>Total Property Valuations</b>	<b>322,277,446</b>	<b>304,588,904</b>

Valuations on land and improvements are done every five years. The last general valuation came into effect on July 2004.

The residential rate on land and improvement was 2.7825 cent in the Rand.

The empty stand rate on land was 2.8219 cent in the Rand.

The business rate on land and improvement was 2.8219 cent in the Rand.

The government rate on land and improvement was 2.8875 cent in the Rand.

Rebate of 30% was granted to Government Institutions.

15 **SERVICE CHARGES**

Sale of Electricity	17,541,109	15,209,320
Sale of Water	6,252,159	5,933,765
Refuse Removal	4,836,166	4,537,876
Sewerage	6,653,402	6,258,538
<b>Total Service Charges</b>	<b>35,282,836</b>	<b>31,939,499</b>

16 **GOVERNMENT GRANTS AND SUBSIDIES**

Equitable Share	28,863,250	23,159,781
Financial and Management Grant	500,000	1,000,000
Financial Help: Lg&H	8,000,000	2,281,929
Provincial Treasury	200,000	-
Drought Relieve Grant: LG&H	-	500,000
Dwarf	342,000	-
Capital Grant: LG&H	484,000	205,200
MSIG	1,000,000	734,000
Provincial Health & EMS Subsidies	67,385	156,639
Electricity	1,711,990	-
CMIP	19,000,000	-
MIG	10,734,092	-
<b>Total Government Grants and Subsidies</b>	<b>70,902,717</b>	<b>28,037,549</b>

**Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of R 164.38 (2006: R 143.38), which is funded from this grant.

**Health and EMS Subsidies**

The municipality renders health services on behalf of the provincial Government and is refunded approximately 80% of total expenditure incurred. This grant has been used exclusively to fund clinic and ambulance services (including in the Health vote in Appendix E). The conditions of the grant have been met. There was no delay or withholding of the subsidy.

**MIG Grant**

This grant was used to eradicate buckets infrastructure. No funds have been withheld.

17

**EMPLOYEE RELATED COSTS****Remuneration of the Municipal Manager**

Annual Remuneration	313,745	256,226
Leave Bonus	25,864	21,294
	26,090	
Performance Bonus	-	-
Personal Allowance	-	39,244
Car Allowance	168,176	109,410
	37,191	
Contributions to UIF, Medical and Pension Funds	30,175	25,350
<b>Total</b>	<b>601,241</b>	<b>451,524</b>

**Remuneration of the Chief Financial Officer**

Annual Remuneration	235,071	178,086
Leave Bonus	19,737	14,787
Leave Money	18,622	-
Housing Allowance	33,792	-
Performance Bonus	-	-
Car Allowance	102,990	135,143
Traveling Claims	19,723	-
Contributions to UIF, Medical and Pension Funds	972	972
<b>Total</b>	<b>430,907</b>	<b>328,988</b>

**Remuneration of the Head: Technical Services**

Annual Remuneration	234,973	178,048
Leave Bonus	19,737	14,787
Leave Money	-	10,647
Housing Allowance	13,790	5,726
Acting Allowance	3,730	8,744
Car Allowance	114,244	122,647
Traveling Claims	13,292	-
Contributions to UIF, Medical and Pension Funds	22,206	18,131
<b>Total</b>	<b>421,972</b>	<b>358,730</b>

**Remuneration of the Head: Corporate Services**

Annual Remuneration	176,842	177,934
Leave Bonus	-	14,787
Leave Money	-	14,196
Acting Allowance	-	13,429
Housing Allowance	-	-
Car Allowance	102,827	103,022
Cell Phone Allowance	2,700	-
Traveling Claims	4,807	-
Contributions to UIF, Medical and Pension Funds	729	17,961
<b>Total</b>	<b>287,905</b>	<b>327,133</b>

#### Remuneration of the Head: Community Services

Annual Remuneration	235,053	-
Leave Bonus	-	-
Leave Money	-	-
Housing Allowance	33,780	-
Acting Allowance	-	-
Car Allowance	102,990	-
Traveling Claims	22,947	-
Contributions to UIF, Medical and Pension Funds	972	-
<b>Total</b>	<b>395,742</b>	<b>-</b>

#### 18 REMUNERATION OF COUNCILLORS

Mayor	339,423	234,737
Speaker	274,224	186,175
Executive Committee Members	285,704	181,963
Councillors	1,088,409	588,047
Travelling	878,306	462,209
Councilor's Pension Contributions	208,261	97,368
<b>Total Councillor's Remuneration</b>	<b>3,074,327</b>	<b>1,750,499</b>

The salaries, allowances and benefits paid to all Councilors are within the the Remuneration of Public Office Bearers Act: Determination of upper limits salaries, allowances and benefits of different members of municipal councils.

The following Councilors is in arrears with the following amounts which is older than 90 days. The outstanding arrears are been collected by monthly deductions from their allowances:

Name:	Outstanding 90days +	Outstanding 90days +
Jonas VI	3,474	308
May DJ	267	201
Porota PJ	-	557
Mgqaliso NG	-	566
Khwinani MA	24,510	22,214
Maema ME	4,825	3,352
Moitse MJ	-	5,607
Mothupi MJ	-	246
Peterson ME	755	1,001
	<b>33,832</b>	<b>34,052</b>

#### 19 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

##### 19.1 Audit Fees

Opening Balance	-246,096	1,732,319
Current year audit fees	717,938	823,514
Amount Paid - Current Year	357,513	1,069,610
Amount Paid - Previous Years	-	1,732,319
<b>Balance unpaid (included in creditors)</b>	<b>114,329</b>	<b>-246,096</b>

##### 19.2 Contributions to Organised Local Government

Opening Balance	344,774	289,999
Current year contributions	15,000	54,775
Amount Paid - Current Year	50,000	-
Amount Paid - Previous Years	-	-
<b>Balance unpaid (included in creditors)</b>	<b>309,774</b>	<b>344,774</b>

19.3 **Pension and Medical Aid Deductions**

Opening Balance	9,123,448	7,901,231
Correction Previous Year	-	59,072
Current year contributions	3,974,732	3,760,119
Amount Paid - Current Year	3,974,732	740,521
Amount Paid - Previous Years	901,833	1,856,453
<b>Balance unpaid (included in creditors)</b>	<b>8,221,615</b>	<b>9,123,448</b>

20 **FINANCE TRANSACTIONS**

**Total External Interest Earned and Paid**

Interest Earned	375,856	249,021
Interest Paid	-121,382	-98,039

Interest External	-121,382	-98,039
Interest Internal	-15,936	-26,838
Redemption External	-360,390	-
Redemption Internal	-18,750	-17,418

21 **APPROPRIATIONS**

Accumulated Deficit at the beginning of the year	-22,611,792	-24,969,892
Operating Surplus for the year	-891,399	2,354,354
Appropriations for the year	-	-
Prior year adjustments	4,111,052	3,746
<b>Accumulated Deficit for the Year</b>	<b>-19,392,139</b>	<b>-22,611,792</b>

The Financial Statements of Centlec had been consolidated during the 2006/07 financial year and the balances as on 30 June 2006 had been corrected from R 22 661 520 to R 22 611 792.

22 **OPERATING ACCOUNT**

Capital Expenditure	1,142,332	454,368
Contributions to:		
Capital Development Fund	863,388	622,176
Audit Fees	921,386	698,600
Bad Debt Provision	11,250,406	2,666,412
External Financing Fund	7,670,278	-
Leave Reserve	1,068,408	-235,929
<b>Total</b>	<b>22,916,198</b>	<b>4,205,627</b>

23 **CASH GENERATED BY OPERATIONS**

<b>Surplus for the year</b>	-891,399	2,354,354
<b>Prior Year Adjustments</b>	4,111,052	3,746
<b>Appropriations against Income</b>	22,916,198	4,205,627
Capital Expenditure	1,142,332	454,368
Capital Development Fund	863,388	622,176
Audit Fees	921,386	698,600
Bad Debt Provision	11,250,406	2,666,412
External Financing Fund	7,670,278	-
Leave Reserve	1,068,408	-235,929
<b>Capital Charges</b>		
Internal Interest	-15,936	-26,838
External Interest	-121,382	-98,039
Internal Redemption	-18,750	-17,418
External Redemption	-360,390	-
<b>Donations and Subsidies</b>	-37,010,635	-27,332,349
<b>Non-Trade Expenditure</b>	-5,763,653	-
<b>Total Cash Generated by Operations</b>	<b>-17,154,895</b>	<b>-20,910,917</b>

24	<b>(INCREASE)/DECREASE IN WORKING CAPITAL</b>		
	(Increase)/Decrease in Stores	125,076	-310,765
	(Increase)/Decrease in Debtors	-5,280,778	-6,466,134
	Increase/(Decrease) in Creditors	-15,707,884	585,902
	<b>Total (increase)/Decrease in Working Capital</b>	<b>-20,863,586</b>	<b>-6,190,997</b>
25	<b>INCREASE/(DECREASE) IN LONG-TERM EXTERNAL LOANS</b>		
	Loans Raised	-	78,040
	Loans Repaid	-360,390	-
	<b>Total Increase/(Decrease) in Long-term Loans</b>	<b>-360,390</b>	<b>78,040</b>
26	<b>(INCREASE)/DECREASE IN EXTERNAL INVESTMENTS</b>		
	Investments Made	-	-
	Investments Realised	-6,829,888	-253,876
	<b>Total (Increase)/Decrease in External Investments</b>	<b>-6,829,888</b>	<b>-253,876</b>
27	<b>(INCREASE)/DECREASE IN CASH ON HAND</b>		
	Cash Balance at the beginning of the Year	1,666,203	870,040
	Cash Balance at the end of the Year	2,753,259	1,666,203
	<b>Total (Increase)/Decrease in Cash on Hand</b>	<b>1,087,056</b>	<b>796,163</b>
28	<b>RETIREMENT BENEFITS</b>		
	All Councillors and employees belong to 4 defined benefit retirement funds administered by the individual Pension and Provident Funds. These funds are subject to a triennial actuarial valuation.		
	An amount of R4.0 million (2006 : R3 million) was contributed by Council in 2 respect of Councillor and employees retirement funding. These contributions have been expensed		
29	<b>CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS</b>		
	<b>Guarantees issued to banks for loans to employees</b>	<b>-</b>	<b>-</b>
	<b>Investments seeded to FNB as collateral for the overdraft</b>	<b>1,685,550</b>	<b>1,685,550</b>
	<b>Capital Commitments</b>	<b>550,664</b>	<b>-</b>
30	<b>LEGAL COST OCCURRED</b>		
	Disciplinary Action	89,491	-
31	<b>FRUITLESS EXPENSES</b>		
	Interest and penalties on late payments	417,461	966,000
	Employees: Sick or not yet retired	292,006	171,042
	Councilor: Over Paid	32,809	-
		<b>742,276</b>	<b>1,137,042</b>



# **ANNEXURE A**

## **ACCUMULATED FUNDS, TRUST FUNDS AND RESERVES FOR THE YEAR ENDED 30 JUNE 2007**

	Balance at 30/06/06	Write Off	Contributions during the year	Interest on investments	Other income	Expenditure during the year	Balance at 30/06/07
	R	R	R	R	R	R	R
<b>ACCUMULATED FUNDS</b>							
External Financing Fund	0	0	0	0	29,854,092	22,183,814	7,670,278
Erven Trust Fund	5,235,814	0	0	44,112	150,538	2,173	5,428,291
Capital Development Fund	6,872,082	0	863,388	44,806	0	0	7,780,276
	12,107,896	0	863,388	44,806	30,004,630	22,185,987	20,878,845

**APPENDIX B**

**KOPANONG LOCAL MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS FOR THE YEAR ENDED 30 JUNE 2007**

<b>EXTERNAL LOANS</b>	<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at 30/06/06</b>	<b>Received during the period</b>	<b>Redeemed written off during the period</b>	<b>Balance at 30/06/07</b>
<b>LONG-TERM LOANS</b>			<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
DBSA Loan @ 13.45%	13	31/12/2012	83,617	-	8,098	75,519
DBSA Loan @ 10.25%	15	30/06/2003	-	-	-	-
DBSA Loan @ 8.00%	23	31/12/2002	-	-	-	-
DBSA Loan @ 13.45%	24	30/06/2003	-	-	-	-
DBSA Loan @ 9.00%	29	30/06/2002	-	-	-	-
DBSA Loan @ 9.00%	30	30/06/2003	-	-	-	-
DBSA Loan @ 16.65%	31	30/06/2001	-	-	-	-
DBSA Loan @ 7.50%	32	30/06/2001	-	-	-	-
Mangaung Loan	1		174,391	-	93,635	80,756
Mangaung Loan	2		160,274	-	20,034	140,240
Mangaung Loan	3		147,558	-	7,766	139,792
Mangaung Loan	4		290,146	-	32,238	257,908
Mangaung Loan	5		759,709	-	44,689	715,020
Mangaung Loan	6		275,471	-	15,304	260,167
Mangaung Loan	7		325,809	-	18,101	307,708
Mangaung Loan	8		197,775	-	11,634	186,141
Mangaung Loan	9		432,292	-	24,016	408,276
Mangaung Loan	10		92,594	-	13,228	79,366
Mangaung Loan	11		92,594	-	13,228	79,366
Mangaung Loan	12		1,109,959	-	58,419	1,051,540
			4,142,189	-	360,390	3,781,799
<b>GOVERNMENT LOANS</b>						
			-	-	-	-
			-	-	-	-
<b>TOTAL EXTERNAL LOANS</b>			4,142,189	-	360,390	3,781,799
<b>INTERNAL ADVANCES TO BORROWING SERVICES</b>						
Internal Loans			95,994.00	-	18,750.00	77,244.00

**ANNEXURE C : ANALYSIS OF FIXED ASSETS FOR THE YEAR ENDED 30 JUNE 2007**

Expenditure 2005/06		Budgeted 2006/07	Balance at 30/06/06	Expenditure 2006/07	Written off transferred redeemed or disposed of during the year	Corrections 2006/07	Balance at 30/06/07
R		R	R	R	R	R	R
3,873,952	<b>RATES AND GENERAL SERVICES</b>	12,182,490	114,438,251	13,437,802	381,838	7,925,515	119,568,699
1,674,528	<b>Community Services</b>	2,959,567	35,724,494	1,015,365	381,838	-2,536,002	38,894,022
0	Other	0	49,825	0	0	49,825	0
115,840	Cemetery	0	115,840	0	0	93,478	22,362
0	Civil Defence	0	90,527	0	0	90,527	0
0	Camps	0	229,843	0	0	229,843	0
948,326	Road Transport	1,780,000	23,526,502	718,902	0	5,340,388	18,905,016
0	Sport & Recreation	0	3,618,482	0	0	-2,013,997	5,632,479
0	Town Land	0	3,229,117	0	0	3,229,117	0
50,154	Administration	929,567	1,508,302	0	0	1,508,302	0
0	Finance	0	0	69,831	0	-838,043	907,874
0	Traffic	0	81,350	0	0	81,350	0
0	Unsold Erven	0	1,533,722	0	141,766	-8,386,717	9,778,673
0	Property	250,000	0	226,632	0	-3,420,986	3,647,618
0	Land Development	0	10,000	0	0	10,000	0
271,320	Surveying	0	728,536	0	0	728,536	0
0	Matoporong	0	9,372	0	0	9,372	0
0	Coloured Town	0	343,653	0	0	343,653	0
288,888	Vehicles	0	646,016	0	240,072	405,943	0
0	Stores	0	3,407	0	0	3,407	0
0	<b>Subsidised Services</b>	0	7,063,766	0	0	-1,010,101	8,073,867
0	Swimming Pool	0	0	0	0	0	0
0	Municipal Housing	0	70,665	0	0	-329,207	399,872
0	Library	0	29,573	0	0	-55,196	84,769
0	Ambulance	0	176,688	0	0	176,688	0
0	Chemist	0	42,573	0	0	42,573	0
0	Municipal Offices	0	3,689,897	0	0	-1,974,949	5,664,846
0	Fire Brigade	0	63,525	0	0	63,525	0
0	Television	0	81,684	0	0	81,684	0
0	Bioscope	0	8,792	0	0	8,792	0
0	Chreche	0	1,859	0	0	1,859	0
0	Mortuary	0	124	0	0	124	0
0	Museum	0	1,610	0	0	-15,071	16,681
0	Commando Office	0	17,864	0	0	17,864	0
0	Milk Depot	0	3,610	0	0	3,610	0
0	Beer Hall	0	38,633	0	0	38,633	0
0	Market	0	119,001	0	0	119,001	0
0	Health	0	2,717,668	0	0	809,969	1,907,699
2,199,424	<b>Economic Services</b>	9,222,923	71,649,991	12,422,437	0	11,471,618	72,600,810
0	Cleansing	0	6,378,825	0	0	6,277,428	101,397
2,199,424	Sewerage	9,222,923	65,271,166	12,422,437	0	5,194,190	72,499,413

**ANNEXURE C (CONTINUE)**  
**ANNEXURE C : ANALYSIS OF FIXED ASSETS (CONTINUE)**

6,080,898	<b>Trading Services</b>	10,160,000	63,070,495	13,597,686	0	-11,774,082	88,442,263
260,640	Electricity	160,000	15,245,790	1,855,006	0	238,470	<b>16,862,326</b>
5,820,258	Water	10,000,000	47,824,705	11,742,680	0	-12,012,552	<b>71,579,937</b>
	<b>Housing</b>						
0	Housing	0	17,649,191	0	0	17,649,191	<b>0</b>
9,954,850	<b>TOTAL FIXED ASSETS</b>	22,342,490	195,157,937	27,035,488	381,838	13,800,624	208,010,962
	<b>Less: Loans and other capital receipts</b>	189,285,191	27,924,084	333,768	12,723,588	204,151,919	
	Loans redeemed and advances paid	82,852,975	888,596	93,695	22,742,335	60,905,541	
	Contribution ex income	6,374,764	1,142,332	240,073	-240,073	7,517,096	
	Provisions and Reserves	2,022,638	0	0	-1	2,022,639	
	Other	6,328,074	143,016	0	-1	6,471,091	
	Grants and Subsidies	91,706,740	25,750,140	0	-9,778,672	127,235,552	
	<b>NET FIXED ASSETS</b>	<b>5,872,746</b>	<b>-888,596</b>	<b>48,070</b>	<b>1,077,036</b>	<b>3,859,043</b>	

**ANNEXURE D**

**ANALYSIS OF OPERATING INCOME AND EXPENDITURE  
FOR THE YEAR ENDED 30 JUNE 2007**

ACTUAL 2006		ACTUAL 2007	BUDGETED 2007
R		R	R
	<b>INCOME</b>		
27,332,349	Government and Provincial grants	37,010,635	30,833,000
40,630,615	Income from tariffs, levies, etc.	49,327,666	46,329,722
67,962,964		86,338,301	77,162,722
	<b>EXPENDITURE</b>		
21,213,939	Salaries and wages	24,665,077	27,561,033
44,047,168	General Expenses	43,951,423	47,640,607
1,854,626	Repairs and maintenance	2,410,829	3,923,140
850,098	Capital charges	785,332	798,134
454,368	Contributions to fixed assets	1,142,332	1,869,567
3,987,188	Contributions	19,760,594	794,705
72,407,387	<b>Gross expenditure</b>	92,715,587	82,587,186
-6,798,777	Less: Amounts charged out	-5,485,887	-5,485,888
65,608,610	<b>Net expenditure</b>	87,229,700	77,101,298

**ANNEXURE E**  
**DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

2006	2006	2006		2007	2007	2007	2007
ACTUAL	ACTUAL	SURPLUS		ACTUAL	ACTUAL	SURPLUS	BUDGET
INCOME	EXPENDITURE	(DEFICIT)		INCOME	EXPENDITURE	(DEFICIT)	SURPLUS
R	R	R		R	R	R	(DEFICIT)
32,967,407	35,937,153	-2,969,746	<b>RATES AND GENERAL</b>	44,857,405	48,609,647	-3,752,242	-11,200,726
13,629,589	20,024,741	-6,395,152	<b>Community Services</b>	22,685,580	25,369,097	-2,683,517	-19,964,917
70,102	1,324,408	-1,254,306	Cemetry and Parks	65,928	1,376,727	-1,310,799	-2,241,618
6,509,370	0	6,509,370	Assessment rates	8,424,124	0	8,424,124	6,174,770
1,638,427	954,146	684,281	Properties	152,614	927,667	-775,053	-611,744
5,268,458	10,509,028	-5,240,570	Administration	2,824,135	11,109,869	-8,285,734	-9,064,125
100,151	2,060,023	-1,959,872	Finances	11,135,618	6,197,270	4,938,348	-7,966,232
1,133	1,133	0	Civil Defence	914	914	0	20,312
35,577	0	35,577	Traffic	61,535	0	61,535	20,000
6,371	5,176,003	-5,169,632	Public Works	20,712	5,756,650	-5,735,938	-6,296,280
1,535,570	1,724,707	-189,137	<b>Subsidised Services</b>	1,940,948	1,935,972	4,976	248,835
1,077,448	1,077,448	0	Library	1,298,231	1,298,231	0	431,517
164,103	164,103	0	Fire Brigade	153,784	153,784	0	-5,676
21,582	89,126	-67,544	Town Hall and Offices	39,225	59,620	-20,395	-177,006
272,437	394,030	-121,593	Health	449,708	424,337	25,371	0
17,802,248	14,187,705	3,614,543	<b>Economic Services</b>	20,230,877	21,304,578	-1,073,701	8,515,356
7,317,050	5,265,525	2,051,525	Cleansing	8,300,696	7,788,905	511,791	4,263,584
10,485,198	8,922,180	1,563,018	Sewerage	11,930,181	13,515,673	-1,585,492	4,251,772
0	1,133	-1,133	<b>Housing Service</b>	1,198,513	127,343	1,071,170	-204,183
0	1,133	-1,133	Housing	1,198,513	127,343	1,071,170	-204,183
34,995,557	29,670,324	5,325,233	<b>Trading Services</b>	40,282,383	38,492,710	1,789,673	11,466,083
17,053,931	14,194,869	2,859,062	Electricity	19,781,874	16,147,170	3,634,704	2,500,174
17,941,626	15,475,455	2,466,171	Water	20,500,509	22,345,540	-1,845,031	8,965,909
67,962,964	65,608,610	2,354,354	<b>TOTAL</b>	86,338,301	87,229,700	-891,399	61,174
		3,746	Appropriation for this year (refer to note 21)			4,111,052	
		2,358,100	Net surplus/(deficit) for the year			3,219,653	
		-24,969,892	Accumulated surplus/(deficit) at the beginning of the year			-22,611,792	
		-22,611,792	Accumulated surplus/(deficit) at the end of the year			-19,392,139	

**ANNEXURE E1: GRANTS RECEIVED AND SPEND DURING THE FINANCIAL YEAR ENDED 30 JUNE 2007**

<b>Grant</b>	<b>01/07/2006 to 30/09/2006</b>	<b>01/10/2006 to 31/12/2006</b>	<b>01/01/2007 to 31/03/2007</b>	<b>01/04/2007 to 30/06/2007</b>	<b>Total</b>
Equitable Share (Received)	9,623,008	7,215,812	12,024,430	0	28,863,250
Equitable Share (Spend)	7,215,813	7,215,813	7,215,813	7,215,811	28,863,250
Financial & Budget Reform (Received)	0	500,000	0	0	500,000
Financial & Budget Reform (Spend)	0	0	0	0	0
CMIP (Received)	0	0	19,000,000	0	19,000,000
CMIP (Spend)	0	0	11,400,701	0	11,400,701
MIG (Received)	1,050,000	2,371,153	7,051,769	261,170	10,734,092
MIG (Spend)	296,050	1,962,764	3,777,359	4,746,940	10,783,113
Local Government & Housing (Received)	80,000	198,800	205,200	0	484,000
Local Government & Housing (Spend)	80,000	85,200	198,800	85,934	449,934
Financial Help: LG&H (Received)	0	0	8,000,000	0	8,000,000
Financial Help: LG&H (Spend)	0	0	8,000,000	0	8,000,000
MSIG (Received)	500,000	500,000	0	0	1,000,000
MSIG (Spend)	250,000	250,000	250,000	506,581	1,256,581
Provincial Treasury (Received)	0	0	200,000	0	200,000
Provincial Treasury (Spend)	0	0	0	200,000	200,000
DWARF (Received)	0	0	0	342,000	342,000
DWARF (Spend)	0	0	0	342,000	342,000
Electricity Grant (Received)	1,711,990	0	0	0	1,711,990
Electricity Grant (Spend)	0	0	0	1,711,990	1,711,990
Department Health (Received)	11,725	13,834	31,424	10,402	67,385
Department Health (Spend)	11,725	13,834	31,424	10,402	67,385

## ANNEXURE F: STATISTICAL INFORMATION

1.0	<b>General Services</b>		
1.1	Population		58,979
1.2	Valuation of Property: Residential		173,042,341
	Valuation of Property: Business		33,325,815
	Valuation of Property: Government		80,325,765
	Valuation of Property: Municipal		35,583,525
	Number of Residential Properties		10,791
	Number of Commercial Properties		416
	Number of Government Properties		357
1.3	Income from Assessment Rates	R	8,424,124
2.0	<b>Water Statistics</b>		
2.1	Number of users		10,639
2.2	Units Bought		4,082,048
2.3	Units Sold		1,597,179
2.4	Free Basic Units (10227x 6 x 12)		736,344
2.5	Units lost in distribution (2.2 - 2.3 - 2.4)		1,748,525
2.6	Units lost in distribution as percentage of 2.2		42.83
2.7	Cost per unit bought (cents)		332c
2.8	Lost in distribution	R	5,805,103
2.9	Cost per unit sold (cents)		1105c
2.10	Income per unit sold (cents)		1284c



3.0     **Electricity Statistics**

3.1	Number of users	6,274
3.2	Units Bought	42,905,767
3.3	Units Sold	37,444,207
3.4	Units lost in distribution (3.2 - 3.3)	5,461,560
3.5	Units lost in distribution as percentage of 3.2	12.73%
3.6	Average Selling Price	492c

3       **Sundry Statistics**

3.1	Area (Square kilometers)	15,247
3.2	Previous election: Number of voters	37,900
3.3	Total personnel in service of the Municipality as on 30 June 2007	380

# **AUDIT REPORT**

## **2006-07**

# **REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF KOPANONG LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of Kopanong Local Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages 92 to 120.

### **Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in the accounting policies to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### **Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:

- appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis of accounting**

8. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting as set out in the accounting policies to the financial statements.

#### **Basis for qualified opinion**

##### **9. Centlec transactions**

During the financial year the transactions of Centlec relating to the electricity service provided on behalf of Kopanong Local Municipality were consolidated into the financial statements of Kopanong Local Municipality. The following material shortcomings were encountered that were not rectified by Centlec, which affected the financial statements of Kopanong Local Municipality:

##### **(a) Fixed assets**

- (i) The existence, completeness and valuation of property, plant and equipment amounting to R8 855 030 as disclosed in note 3 to the financial statements, could not be verified due to the following weaknesses regarding the fixed asset register:
- No specific purchase date was provided for the assets acquired prior to 2006, only the year in which the assets were acquired.
  - Most assets had descriptions, but these descriptions did not really assist in physically identifying the assets.
  - Except for additions the method of financing did not appear on the fixed asset register.
  - Not all physical locations of assets were indicated in the asset register.
  - Only a few assets had unique numbers or serial numbers, but they were not relevant in assisting with the physical verification of assets. In most cases no numbers were allocated.
  - Net asset value/carrying value was only indicated for the entire period and not for each completed year of use.
  - No details were shown of any write-down or write-up in carrying value.
  - Where assets were disposed of no disposal date appeared in the asset register.
  - Neither the amount received for disposal of a fixed asset nor the resultant profit or loss on the disposal was indicated.
  - Only in a few instances was the physical condition of the asset indicated.
- (ii) Additions to fixed assets amounting to R1 060 215 could not be compared to the approved budget due to insufficient information.
- (iii) Two vehicles costing R264 554 in total, according to the asset register, were not registered in the name of Kopanong Local Municipality but were registered in the name of Mangaung Local Municipality.

**(b) Long-term liabilities**

- (i) Individual loan agreements for capital purchases made by Centlec on behalf of Kopanong Local Municipality could not be submitted for audit purposes. Therefore the existence, completeness, occurrence, accuracy and classification of the original loans granted amounting to R6 258 556 as well as the balance of long-term liabilities of R4 058 572 at 30 June 2006 and R3 706 280 at 30 June 2007 could not be verified.
- (ii) Information to verify the period of the loans and the applicable interest rates as per the loan register could not be obtained. As the accuracy of the repayment terms and conditions could not be determined, the occurrence and accuracy of interest payments amounting to R470 316 for the 2005-06 financial year and R405 857 for the 2006-07 financial year could not be verified. The occurrence and accuracy of redemption payments amounting to R352 292 as well as an additional redemption of R292 298 for the 2005-06 financial year and R352 292 for the 2006-07 financial year could also not be verified.

**(c) Expenditure**

- (i) Supporting documents were not attached to a journal for R53 297. The occurrence and accuracy of this expenditure could thus not be verified.
- (ii) In certain instances the supporting documentation attached to the journals did not agree with the transaction processed. The unexplained variance between the journal transactions and attached documentation amounted to R3 672 642.
- (iii) As the electricity purchased for June 2007 was not recorded, creditors and expenditure were understated by R1 400 284.
- (iv) Three quotations were not attached to expenditure vouchers amounting to R67 703. As this is contrary to the procurement policy the expenditure is regarded as irregular expenditure according to the definition in the MFMA. This irregular expenditure was not disclosed in the financial statements.
- (v) The occurrence and accuracy of expenditure amounting to R71 849 could not be verified as the expenditure vouchers had two different requisition numbers.
- (vi) As requisitions amounting to R54 985 could not be submitted for audit purposes, the occurrence, accuracy and classification of the expenditure could not be verified.
- (vii) The following expenditure which is regarded as irregular expenditure was not disclosed in the financial statements as required in terms of section 125 of the MFMA:
  - During the verification of the expenditure it was identified that the delegations of authority were not complied with. Cheques amounting to R979 804 were identified that were not authorised by the CFO as required in terms of the delegations of authority.
  - Orders amounting to R38 753 issued in the name of Mangaung Local Municipality (MLM) were paid by Centlec.

**(d) Revenue**

- (i) Incorrect meter readings occurred in respect of a new connection made at a nature reserve. The KVA reading on this meter was incorrectly allocated by the meter readers and had been captured incorrectly since the installation of the new meter at the complex in April 2006. The total electricity incorrectly levied

amounted to R1 484 654 for the 2006-07 financial year. Electricity income was thus overstated and creditors understated by this amount.

- (ii) An unexplained difference of R288 577 in the sale of electricity between the general ledger and the Consbill system module was identified.

**(e) Debtors**

- (i) The outstanding consumer debts at 30 June 2006 amounted to R514 017 as disclosed in note 4 to the financial statements. The existence, valuation, completeness and rights and obligations of the amount disclosed could not be confirmed, as neither a debtor trial balance nor any other supporting documentation to substantiate the amount could be obtained.
- (ii) No documentation was available to verify the movement and opening balance for the 2005-06 financial year. The movement for the 2006-07 financial year was verified and no deviations were found. Due to the fact that the existence, valuation, completeness and rights and obligations of the opening balance of R357 350 at 30 June 2005 could not be verified, the closing balance of R420 501 at 30 June 2006 could also not be verified.

**10. Revenue**

**Assessment rates**

- (a) Section 77 of the Municipal Property Rates Act, 2004 (Act No. 6 of 2004) states that a municipality must regularly, but at least once a year, update its valuation roll. Nineteen properties that required a valuation for improvements within the 2006-07 financial year were not valued.  
According to the building plan register for Bethulie the status of new buildings and improvements was last updated on 21 January 2004. According to the register received, improvements were made to 23 properties. Evidence that interim valuations were performed on these properties could not be submitted. Detailed records indicating the date when the improvements were finalised and the estimated value of these improvements were also not available.
- (b) The assessment rate reconciliation for the current financial year could not be submitted for auditing purposes. The reasonableness and accuracy of assessment rate income of R8 424 124 as disclosed in annexure E of the financial statements could therefore not be verified. A difference of R1 045 215 between the actual income levied for assessment rates and a calculation of the assessment rates income based on the valuation roll could not be explained. The difference of R1 045 215 represented a possible overstatement of income.  
Consequently the accuracy and completeness of assessment rates income could not be confirmed. Information to calculate the understatement of revenue for assessment rates was not available.

**11. Provisions**

Included in provisions of R3 043 211 as disclosed in the balance sheet was leave provision amounting to R2 272 198 that could not be verified due to shortcomings identified in the leave registers/records and incorrect leave calculations. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of the leave provision.

**12. Fixed assets**

- (a) Income amounting to R141 766 was recorded for erven disposed of during 2006-07. This consisted of monthly instalments for erven sold and also erven sold for cash during the current year. A register/record of all erven that were disposed of and for which ownership was transferred could not be provided. It could therefore not be verified that erven that were transferred from the municipality were removed from the fixed asset register. This issue was also raised during the prior financial year.
- (b) Even though the municipality maintained an asset register, documentation that a full asset count was performed at all the units could not be obtained.
- (c) As disclosed in annexure C to the financial statements a number of capital assets were identified during the audit that had not been allocated the correct value and were included in the closing balance of R208 010 962. The closing balance was consequently misstated by an unquantifiable amount that would equate to the cost or fair value of these assets, as indicated, had they been determined. These assets were recorded at a value of R1 and R0 each in the asset register, as the actual costs or fair value of the assets had not been determined. Seventy-nine assets with a R1 and R0 value were found in the fixed asset register.

### **13. Expenditure**

- (a) Supporting documentation was not attached to the applicable expenditure vouchers amounting to R550 957. Insufficient supporting documentation was also attached to the applicable expenditure vouchers amounting to R141 351. The occurrence, accuracy, completeness and classification of expenditure amounting to R692 308 could thus not be verified.
- (b) Owing to the lack of supporting documents it could not be confirmed if payments to the total amount of R149 268 paid to temporary contract workers during the financial year were actually received by the workers.

### **14. Inventory**

Owing to the shortcomings and lack of supporting documentation listed below the completeness and accuracy of inventory stock amounting to R205 841 at 30 June 2007 could not be verified:

- (a) Evidence that periodic reconciliation of the stock records against physical stock items was performed on a regular/monthly basis in respect of all the municipal units where the stock counts were attended by the office could not be obtained.
- (b) The following shortcomings were identified with regard to the inventory count observed:
  - Evidence of prior preparations and/or planning for the stocktaking could not be observed, as stock sheets could also not be provided.
  - Evidence that the procedure manual and/or clear instructions for the stocktaking were compiled and forwarded to all the units was not obtained. This could lead to a situation where the count teams at the units do not conduct the stock count in a proper and informed manner.
  - It was noted that the stock lists were only compiled on the day allocated for conducting the stock count, indicating that the stock lists were not prepared prior to the count and a list of stock items and balances was only prepared as the stock count progressed.
  - Inventory items were not in all instances stored and/or grouped together, which complicated the control of inventory items and the counting of the items.

- Inventory records were not kept, thus the stock received and issued during the financial year was not recorded. The correctness of the stock on hand at 30 June 2007 could therefore not be verified with the stock records.
- It was observed during the municipal stock count that most stock items stored at the municipal units were obsolete.
- Evidence that damaged, obsolete and slow-moving items were identified by the count team and/or indicated on the stock count sheets at all the municipal units could not be observed.
- Owing to a lack of accurately updated stock records, slow-moving inventory and/or obsolete inventory items could not be identified for disposal purposes.
- No receiving or dispatching areas were noted and it was also observed that the area in which the inventory items were stored was not a confined area. Access control to the stock was thus not restricted and responsibility for stock shortages could not be determined.
- No monetary values were indicated on the count sheets of inventory and no records of procurement were kept at the units to establish the value of inventory items. The value of inventory for the entire municipality at 30 June 2007 could therefore not be accurately determined.

#### **15. Cash flow statement**

During the audit of the municipality's cash flow statement it was noted that the information disclosed in note 23 to the financial statements were not correct. The following deficiencies were noted:

- Capital charges amounting to R516 458 were not added back to the surplus for the year but were subtracted and netted against the non-trade expenditure.
- Non trade income amounting to R7 670 278 in respect of the external financing fund was incorrectly disclosed as an appropriation against income.
- Investment income of R375 856 was netted against the non-trade expenditure.

#### **Qualified opinion**

- 16.** In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs 9 to 16, the financial statements of Kopanong Local Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in the accounting policies to the financial statements and in the manner required by the MFMA.

#### **Emphasis of matters**

I draw attention to the following matters:

#### **17. Highlighting a matter affecting the financial statements**

##### **(a) Water distribution losses increased drastically**

The water distribution loss amounted to 42.83% (2006: 20%) for the financial year according to annexure F to the financial statements. Based on the cost per unit purchased this resulted in a loss of R5 808 103 (2006: R2 028 632) for the



municipality. This loss was considered to be abnormally high and had increased drastically from the previous year.

**(b) Fruitless expenditure identified**

As disclosed in note 31 to the financial statements, fruitless expenditure amounting to R742 275 was identified during the 2006-07 audit of Kopanong Local Municipality in respect of interest and penalties on late payments, salaries paid to employees that were on long sick leave or not yet retired and a councillor that was overpaid.

**OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

**18. Non-compliance with applicable legislation**

**(a) Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

- No evidence that a draft service delivery and budget implementation plan was prepared and submitted  
Section 69(3)(a) of the MFMA stipulates that the accounting officer must no later than 14 days after approval of an annual budget submit to the mayor a draft service delivery and budget implementation plan for the budget year. Section 53(1)(c)(ii) of the MFMA stipulates that the mayor of a municipality must take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget. No evidence could be obtained that a draft service delivery and budget implementation plan for the 2007-08 budget year was prepared and submitted as required.
- **Delegations of authority not approved and implemented**  
In terms of section 79(1)(a) of the MFMA the accounting officer of a municipality must develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration. The approved delegations of authority and an indication of the date of approval/implementation date could not be submitted for auditing purposes.
- **Invalid orders**  
Sections 65(1) and 65(2)(a) of the MFMA stipulate that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds. Various orders were noted that were not signed as proof of authorisation.
- **Payments not made timeously**  
In terms of section 65(2)(e) of the MFMA the accounting officer of a municipality must ensure that all money owing by the municipality is paid within 30 days of

receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. Several instances amounting to R2 669 928 were found where it could not be confirmed whether the payment was made within 30 days of receipt of the invoice.

**(b) Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)**

- **Performance contracts not submitted**

In terms of section 57(1) of the MSA, a person may be appointed as the municipal manager of a municipality, and as a manager directly accountable to the municipal manager, only in terms of a written employment contract with the municipality complying with the provisions of this section and subject to a separate performance agreement concluded annually. The 2006-07 performance agreements for the section 57 managers listed below could not be submitted for auditing purposes:

- Municipal Manager
- Director: Corporate Services
- Director: Finance
- Director: Community Services
- Director: Technical Services

- **No approved salary structure**

Section 66 of the MSA stipulates that a municipal manager, within a policy framework determined by the municipal council and subject to any applicable legislation, must amongst others attach to those posts the remuneration and other conditions of service as may be determined in accordance with any applicable labour legislation and establish a processor mechanism to regularly evaluate the staff establishment and, if necessary, review the staff establishment and the remuneration and conditions of service. Evidence that the aforementioned requirements were complied with could not be obtained.

**(c) Electricity Regulation Act, 2006 (Act No. 4 of 2006)**

The licence for the distribution of electricity from the National Energy Regulator of South Africa (NERSA) that was submitted to audit had expired on 30 June 2006. A licence for the 2006-07 financial year and the approval of the tariffs by NERSA as required in terms of the Electricity Regulation Act could not be submitted.

**Matters of governance**

**19. Effectiveness of internal audit and the audit committee**

- Contrary to section 166 of the MFMA the audit committee did not perform certain functions and this resulted in the audit committee not operating effectively, which constituted a weakness in the governance structure.
- Thus effective, efficient and transparent systems of financial and risk management, internal control and internal audit operating in accordance with any prescribed norms and standards were not maintained as required in terms of section 62(1)(c) of the MFMA. This resulted in internal audit not operating effectively.

- Contrary to section 165 of the MFMA the internal audit did not perform certain functions and this also resulted in internal audit not operating effectively, which constituted a weakness in the governance structure.

## **20. Going concern**

### **(a) Funds and reserves**

The closing balance of funds and reserves amounted to R20 878 845, whereas only R8 855 640 (investments and positive bank balance) was invested internally and externally at year-end, resulting in a shortfall of R12 023 205. It therefore appeared that funds and reserves were utilised to finance the operating activities of the council. The above-mentioned matter was also reported in the previous reports.

### **(b) Debtor accounts**

The consumer debtors increased by R5 024 732 from R51 574 563 at 30 June 2006 to R56 599 295 at 30 June 2007. The average period to recover debtors was calculated to be 299 days, which is considered exceptionally long.

### **(c) Personnel expenditure**

Salary deductions in respect of pension fund, income tax and unemployment insurance, insurance funds and medical aid amounting to R11 133 186 at 30 June 2007 (R12 668 321: 2006) had not been paid over to the parties concerned. This could lead to civil and/or criminal charges against the council resulting in losses, which could cast a significant doubt on the ability of the municipality to continue operating as a going concern as a result of heavy litigation.

### **(d) Operating activities**

The accumulated deficit amounted to R19 392 139 at 30 June 2007 (R22 611 792: 2006).

### **(e) Payment of creditors**

The municipality failed to make payments to the creditors as and when due, as required in terms of section 138(a) of the MFMA, and it defaulted on financial obligations for financial reasons.

### **(f) Creditor accounts**

The average payment rate in respect of creditors was calculated at 97 days compared to the norm of 60 days. According to section 65(2)(e) of the MFMA, all money owing by the municipality has to be paid within 30 days of receiving the relevant invoice. The bank overdraft as disclosed in the balance sheet increased from R2 473 892 to R2 800 355.

These going concern risks have not been adequately disclosed in the financial statements

## **21. Material corrections made to the financial statements submitted for audit**

The financial statements, approved by the accounting officer as submitted for audit on 31 August 2007, have been significantly revised in respect of the following misstatements identified during the audit:

- (a) The capital development fund as disclosed in note 2 to the financial statements and its related expenses were understated by R184 256.
- (b) The interest in arrears on DBSA loans amounting to R517 555 as disclosed in note 3 to the financial statements that were not repaid was incorrectly recorded in the previous financial years. This resulted in the loans being disclosed as R593 074 in the financial statements, while only an amount of R75 519 should have been disclosed as loans and R517 555 as a creditor.
- (c) The short-term portion of long-term liabilities as disclosed in note 3 to the financial statements was overstated by R508 323.
- (d) The provision for bad debts as disclosed in note 9 to the financial statements and the related expenditure were understated by R8 691 698.
- (e) Other debtors was understated by R66 721 in note 10 to the financial statements and bank, cash and overdraft balances were overstated by R66 721 in note 13 to the financial statements due to Centlec's bank account originally being disclosed as a bank balance and not as a debtor.
- (f) Capital commitments were understated by R550 664 as no capital commitments were originally provided for during the current financial year.
- (g) The bonus liability and its related expenditure were understated by R666 904 as no bonus liability was originally provided for during the current financial year.
- (h) Fruitless and wasteful expenditure was understated by R483 837 (2005-06: R171 042), as fruitless and wasteful expenditure was not originally disclosed in the financial statements.

## 22. Internal control

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies existed in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
<b>Basis for qualification of opinion</b>					
Centlec transactions			X		X
Revenue			X		X
Provisions			X		
Fixed assets	X		X	X	X
Expenditure			X		
Value-added tax			X		
Inventory			X		
Going concern	X	X	X		X
<b>Emphasis of matter</b>					
Highlighting of a matters affecting the financial	X		X		X

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
statements					
<b>Other matters</b>					
Non-compliance with applicable laws and regulations	X		X		X
Matters of governance	X	X	X		
Material corrections to the financial statements	X		X		X

### **Control environment**

The municipality did not establish the key elements of a control environment to achieve sound financial management. This resulted in an inadequate level of skills and knowledge to enable the financial statements to be accurately prepared in accordance with the applicable basis of accounting, which in turn gave rise to many corrections to the financial statements resulting from matters identified.

### **Assessment of risks**

Inadequate management of risks was facing the municipality as it sought to achieve its mission and objectives. It was noted that the formal risk assessment for the year was not performed and implemented.

### **Control activities**

In terms of the MFMA, the municipality is required to ensure that an effective and efficient system of internal control is in place. Management had not identified the actions and control activities needed to address the risks surrounding numerous cycles and had not developed and implemented appropriate policies and procedures. It was also noted that the control activities that needed to address the risks surrounding the recording of transactions in respect of electricity supplied by Centlec were not effective. This is evident from the matters reported.

### **Information system controls and communication**

An information systems (IS) audit of the general controls at Kopanong Local Municipality was completed in November 2006 and the findings were reported to the accounting officer.

The most significant weaknesses identified during the audit were the following:

- A comprehensive IT security policy and user account management procedures had not been developed.
- Duties were inadequately segregated as at least one user involved in normal user activities also had access via the administrator user account.
- The user account parameters with regard to passwords were set to an inadequate level to ensure sufficient logical access control.

The above-mentioned weaknesses indicated that management had not established the required level of control over key IT processes, which were consequently exposed to significant control risks.

### **Monitoring controls**

The monitoring of controls, such as the review of reconciliations, confirmations from external parties and the internal audit process, was not effective. The internal audit division did not provide an effective service to management by assisting them in their governance responsibilities.

### **23. Unaudited supplementary schedules**

The supplementary information set out on pages 113 to 120 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

## **OTHER REPORTING RESPONSIBILITIES**

### **Reporting on performance information**

24. I have audited the performance information as set out on pages 39 to 87.

25. I was engaged to audit the performance information.

### **Responsibility of the accounting officer for the performance information**

26. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA.

### **Responsibility of the Auditor-General**

27. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 646 of 25 May 2007* and section 45 of the MSA.

28. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

29. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

### **30. Non-compliance with regulatory requirements**

#### **• No quarterly reporting on performance information**

No quarterly reports on the progress in achieving measurable objectives and targets were prepared as a whole for Kopanong Local Municipality to facilitate effective performance monitoring, evaluation and corrective action.

#### **• Existence and functioning of a performance audit committee**

Kopanong Local Municipality did not appoint and budget for a performance audit committee, neither was another audit committee utilised as the performance audit committee.

- **Internal auditing of performance measurements**

Kopanong Local Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal auditing processes as required in terms of section 45 of the MSA.

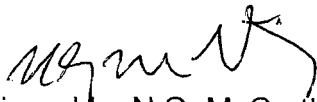
**31. No input, output and outcome indicators or targets set for KPIs**

Section 26(f) of the MSA requires that the integrated development plan (IDP) must include the key performance indicators and performance targets set in terms of section 41 of the MSA. Section 41(1)(a) of the MSA identifies key performance indicators (KPIs) and performance targets as key components of the municipality's performance management system. KPIs and performance targets must be set for the development priorities and objectives contained in the IDP. For each of the development issues and objectives in the IDP the council must set input indicators (i.e. indicators that measure the costs, resources and time used to produce an output), output indicators (i.e. indicators that measure the results of activities, processes and strategies of a programme of the municipality) and outcome indicators (i.e. indicators that measure the quality and/or impact of an output on achieving a particular objective).

No input, output and outcome indicators or targets were set for the KPIs indicated in the municipality's IDP.

**APPRECIATION**

- 32.** The assistance rendered by the staff of Kopanong Local Municipality during the audit is sincerely appreciated.



Signed by N.G. McCarthy

Bloemfontein  
30 November 2007



A U D I T O R - G E N E R A L

RESPONSES  
AUDIT REPORT  
2006-07



**RESPONSES TO THE REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF KOPANONG LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

Number	Query	Response	Responsible Person	Due Date	Implementation Status
	<b>Basis for qualified Opinion</b>				
<b>9.0</b>	<b>Centlec transactions</b>				
<b>(a)</b>	<b>Fixed assets</b>				
<b>(i)</b>	<p>The existence, completeness and valuation of property, plant and equipment amounting to R8 855 030 as disclosed in note 3 to the financial statements, could not be verified due to the following weaknesses regarding the fixed asset register:</p> <p>No specific purchase date was provided for the assets acquired prior to 2006, only the year in which the assets were acquired.</p> <p>Most assets had</p>	Asset Register will be corrected	CFO Centlec	30 June 08	

descriptions, but these descriptions did not really assist in physically identifying the assets.	Asset Register will be corrected	CFO Centlec	30 June 08	
Except for additions the method of financing did not appear on the fixed asset register.	Finance Sources will be added	CFO Centlec	30 June 08	
Not all physical locations of assets were indicated in the asset register.	Assets Register will be corrected	CFO Centlec	30 June 08	
Only a few assets had unique numbers or serial numbers, but they were not relevant in assisting with the physical verification of assets. In most cases no numbers were allocated.	All assets will be numbered.	CFO Centlec	30 June 08	
Net asset value/carrying value was only indicated for the entire period and not for each completed year of use.	Assets register will be corrected	CFO Centlec	30 June 08	
No details were shown of any write-down or write-up in carrying value.	GRAP not yet implemented.	CFO Centlec	30 June 08	
Where assets were	Asset Register will be	CFO Centlec	30 June 08	

	disposed of no disposal date appeared in the asset register.  Neither the amount received for disposal of a fixed asset nor the resultant profit or loss on the disposal was indicated.  Only in a few instances was the physical condition of the asset indicated.	corrected  Asset register will be corrected  Asset register will be corrected with the implementation of GRAP	CFO Centlec  CFO Centlec	30 June 08  30 June 08	
(ii)	Additions to fixed assets amounting to R1 060 215 could not be compared to the approved budget due to insufficient information.	Information will be supplied	CFO Centlec	28 February 08	
(iii)	Two vehicles costing R264 554 in total, according to the asset register, were not registered in the name of Kopanong Local Municipality but were registered in the name of Mangaung Local Municipality	Will be investigated and corrected	CFO Centlec	31 March 08	
(b)	<b>Long-term liabilities</b>				
(i)	Individual loan				

	<p>agreements for capital purchases made by Centlec on behalf of Kopanong Local Municipality could not be submitted for audit purposes. Therefore the existence, completeness, occurrence, accuracy and classification of the original loans granted amounting to R6 258 556 as well as the balance of long-term liabilities of R4 058 572 at 30 June 2006 and R3 706 280 at 30 June 2007 could not be verified.</p>	<p>Agreements will be obtained and submitted to the Auditor General's Office</p>	CFO Centlec	28 February 08	
(ii)	<p>Information to verify the period of the loans and the applicable interest rates as per the loan register could not be obtained. As the accuracy of the repayment terms and conditions could not be determined, the occurrence and accuracy of interest payments amounting to R470 316 for the 2005-06 financial year and R405 857 for the 2006-</p>	<p>Agreements will be obtained and submitted to the Auditor General's Office</p>	CFO Centlec	28 February 08	

	07 financial year could not be verified. The occurrence and accuracy of redemption payments amounting to R352 292 as well as an additional redemption of R292 298 for the 2005-06 financial year and R352 292 for the 2006-07 financial year could also not be verified.				
<b>(c)</b>	<b>Expenditure</b>				
<b>(i)</b>	Supporting documents were not attached to a journal for R53 297. The occurrence and accuracy of this expenditure could thus not be verified.	Supporting Documents will be obtained	CFO Centlec	28 February 08	
<b>(ii)</b>	In certain instances the supporting documentation attached to the journals did not agree with the transaction processed. The unexplained variance between the journal transactions and attached documentation amounted to R3 672 642.	The differences will be investigated and a report will be submitted to the AG.	CFO Centlec	28 February 08	
<b>(iii)</b>	As the electricity				

	purchased for June 2007 was not recorded, creditors and expenditure were understated by R1 400 284.	Care will be taken in the future to ensure that all expenditure as on 30 June is recorded.	CFO Centlec	30 June 08	
(iv)	Three quotations were not attached to expenditure vouchers amounting to R67 703. As this is contrary to the procurement policy the expenditure is regarded as irregular expenditure according to the definition in the MFMA. This irregular expenditure was not disclosed in the financial statements.	The matter will be investigated and a report will be submitted to the AG	CFO Centlec	28 February 08	
(v)	The occurrence and accuracy of expenditure amounting to R71 849 could not be verified as the expenditure vouchers had two different requisition numbers	The matter will be investigated and a report will be submitted to the AG	CFO Centlec	28 February 08	
(vi)	As requisitions amounting to R54 985 could not be submitted for audit purposes, the occurrence, accuracy and classification of the	The documentation will be found and submitted to the AG	CFO Centlec	31 March 08	

	expenditure could not be verified.				
(vii)	<p>The following expenditure which is regarded as irregular expenditure was not disclosed in the financial statements as required in terms of section 125 of the MFMA:</p> <p>During the verification of the expenditure it was identified that the delegations of authority were not complied with. Cheques amounting to R979 804 were identified that were not authorised by the CFO as required in terms of the delegations of authority.</p> <p>Orders amounting to R38 753 issued in the name of Mangaung Local Municipality (MLM) were paid by Centlec.</p>	<p>The matter will be investigated and a report will be submitted to the AG</p> <p>The matter will be investigated and a report will be submitted to the AG</p>	<p>CFO Centlec</p> <p>CFO Centlec</p>	<p>28 February 08</p> <p>28 February 08</p>	
(d)	<b>Revenue</b>				
(i)	Incorrect meter readings occurred in respect of a new connection made at				

	a nature reserve. The KVA reading on this meter was incorrectly allocated by the meter readers and had been captured incorrectly since the installation of the new meter at the complex in April 2006. The total electricity incorrectly levied amounted to R1 484 654 for the 2006-07 financial year. Electricity income was thus overstated and creditors understated by this amount.	The matter will be investigated and corrected.	CFO Centlec	31 March 08	
(ii)	An unexplained difference of R288 577 in the sale of electricity between the general ledger and the Consbill system module was identified.	The matter will be investigated and corrected.	CFO Centlec	31 March 08	
(e)	<b>Debtors</b>				
(i)	The outstanding consumer debts at 30 June 2006 amounted to R514 017 as disclosed in note 4 to the financial statements. The existence, valuation, completeness and rights	Supporting Documents	CFO Centlec	28 February 08	



	and obligations of the amount disclosed could not be confirmed, as neither a debtor trial balance nor any other supporting documentation to substantiate the amount could be obtained.	will be obtained			
(ii)	No documentation was available to verify the movement and opening balance for the 2005-06 financial year. The movement for the 2006-07 financial year was verified and no deviations were found. Due to the fact that the existence, valuation, completeness and rights and obligations of the opening balance of R357 350 at 30 June 2005 could not be verified, the closing balance of R420 501 at 30 June 2006 could also not be verified	Supporting Documents will be obtained	CFO Centlec	28 February 08	
	<b>KOPANONG</b>				
<b>10</b>	<b>Revenue</b>				
	<b>Assessment rates</b>				

(a)	<p>Section 77 of the Municipal Property Rates Act, 2004 (Act No. 6 of 2004) states that a municipality must regularly, but at least once a year, update its valuation roll. Nineteen properties that required a valuation for improvements within the 2006-07 financial year were not valued.</p> <p>According to the building plan register for Bethulie the status of new buildings and improvements was last updated on 21 January 2004. According to the register received, improvements were made to 23 properties. Evidence that interim valuations were performed on these properties could not be submitted. Detailed records indicating the date when the improvements were finalised and the estimated value of these improvements were also not available.</p>	<p>All improved and/or new properties will in future be re-valued for rates purposes.</p> <p>The registers will be kept in future to ensure that interim valuations can be done on a yearly basis.</p>	<p>Income Accountant</p> <p>Income Accountant / Unit Managers</p>	<p>On-Going</p> <p>On-Going</p>	



	revenue for assessment rates was not available				
<b>11</b>	<b>Provisions</b>				
	<p>Included in provisions of R3 043 211 as disclosed in the balance sheet was leave provision amounting to R2 272 198 that could not be verified due to shortcomings identified in the leave registers/records and incorrect leave calculations. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of the leave provision.</p>	<p>The Human Resource Section will correct the leave records and this will be available at the next audit.</p>	<p>Director: Corporate Services</p>	<p>30 June 08</p>	
<b>12</b>	<b>Fixed Assets</b>				
<b>(a)</b>	<p>Income amounting to R141 766 was recorded for erven disposed of during 2006-07. This consisted of monthly instalments for erven sold and also erven sold for cash during the current year. A</p>	<p>A register will be implemented by the Housing Section to</p>	<p>Director: Technical Services</p>	<p>28 February 08</p>	

	<p>register/record of all erven that were disposed of and for which ownership was transferred could not be provided. It could therefore not be verified that erven that were transferred from the municipality were removed from the fixed asset register. This issue was also raised during the prior financial year.</p>	<p>ensure that the information is available in future.</p>			
<b>(b)</b>	<p>Even though the municipality maintained an asset register, documentation that a full asset count was performed at all the units could not be obtained</p>	<p>The Accounting Officer will ensure that this is done in future</p>	<p>Budget Accountant</p>	<p>30 June 08</p>	
<b>(c)</b>	<p>As disclosed in annexure C to the financial statements a number of capital assets were identified during the audit that had not been allocated the correct value and were included in the closing balance of R208 010 962. The closing balance was</p>	<p>An investigation will be done into these assets and the assets that have reached its useful lifespan will be sold and the assets that can still be used will be re-</p>	<p>Budget Accountant</p>	<p>30 June 08</p>	

	consequently misstated by an unquantifiable amount that would equate to the cost or fair value of these assets, as indicated, had they been determined. These assets were recorded at a value of R1 and R0 each in the asset register, as the actual costs or fair value of the assets had not been determined. Seventy-nine assets with a R1 and R0 value were found in the fixed asset register.	valued to obtain a fair value.			
<b>13</b>	<b>Expenditure</b>				
<b>(a)</b>	Supporting documentation was not attached to the applicable expenditure vouchers amounting to R550 957. Insufficient supporting documentation was also attached to the applicable expenditure vouchers amounting to R141 351. The occurrence, accuracy, completeness and classification of expenditure amounting	Supporting Documents will be obtained	Accountant Expenditure	28 February 08	

	to R692 308 could thus not be verified.				
<b>(b)</b>	Owing to the lack of supporting documents it could not be confirmed if payments to the total amount of R149 268 paid to temporary contract workers during the financial year were actually received by the workers	Registers had been implemented by the Unit Managers to ensure that all temporary workers signs for their money	Unit Managers	On-going	
<b>14</b>	<b>Inventory</b>				
	Owing to the shortcomings and lack of supporting documentation listed below the completeness and accuracy of inventory stock amounting to R205 841 at 30 June 2007 could not be verified:				
<b>(a)</b>	Evidence that periodic reconciliation of the stock records against physical stock items was performed on a regular/monthly basis in respect of all the municipal units where	The Unit Managers will implement full control over stock and this will include stock counts on a regular basis.	Unit Managers	On-going	

	the stock counts were attended by the office could not be obtained				
<b>(b)</b>	<p>The following shortcomings were identified with regard to the inventory count observed:</p> <p>Evidence of prior preparations and/or planning for the stocktaking could not be observed, as stock sheets could also not be provided.</p> <p>Evidence that the procedure manual and/or clear instructions for the stocktaking were compiled and forwarded to all the units was not obtained. This could lead to a situation where the count teams at the units do not conduct the stock count in a proper and informed manner.</p> <p>It was noted that the stock lists were only compiled on the day allocated for conducting the stock count, indicating that the stock</p>	<p>The stock counting was prepared in advance as the office of the AG was invited. This is done annually</p> <p>An instruction sheet will be developed and sent to the units each year.</p> <p>The Unit Managers will</p>	<p>Financial Manager</p> <p>Financial Manager</p>	<p>Annually</p> <p>31 March 08</p>	



	<p>lists were not prepared prior to the count and a list of stock items and balances was only prepared as the stock count progressed.</p> <p>Inventory items were not in all instances stored and/or grouped together, which complicated the control of inventory items and the counting of the items.</p> <p>Inventory records were not kept, thus the stock received and issued during the financial year was not recorded. The correctness of the stock on hand at 30 June 2007 could therefore not be verified with the stock records.</p> <p>It was observed during the municipal stock count that most stock items stored at the municipal units were obsolete.</p> <p>Evidence that damaged, obsolete and slow-moving items were</p>	<p>implement stock registers at each unit and this will resolved this matter</p> <p>Unit Managers will ensure that stock are properly stored</p> <p>The Unit Managers will implement stock registers at each unit and this will resolved this matter</p> <p>The obsolete stock will be taken out and sold on an auction</p>	<p>Unit Managers</p> <p>Unit Managers</p> <p>Unit Managers</p> <p>Unit Managers</p>	<p>31 March 08</p> <p>31 March 08</p> <p>31 March 08</p> <p>30 June 08</p>	
--	---	---	---	--	--

<p>identified by the count team and/or indicated on the stock count sheets at all the municipal units could not be observed.</p> <p>Owing to a lack of accurately updated stock records, slow-moving inventory and/or obsolete inventory items could not be identified for disposal purposes.</p> <p>No receiving or dispatching areas were noted and it was also observed that the area in which the inventory items were stored was not a confined area. Access control to the stock was thus not restricted and responsibility for stock shortages could not be determined.</p> <p>No monetary values were indicated on the count sheets of inventory and no records of procurement were kept at the units to establish the value of inventory items. The value of inventory for</p>	<p>The obsolete stock will be taken out and sold on an auction</p>	Unit Managers	30 June 08	
	<p>The Unit Managers will implement stock registers at each unit and this will resolved this matter</p>	Unit Managers	31 March 08	
	<p>As the stores are only emergency stock it is not financially viable for the municipality to build proper stores at each unit. The main stores will be implemented at the Head Office.</p>	Unit Managers	Completed	
	<p>The Unit Managers will implement stock registers at each unit and this will resolved</p>	Unit Managers	31 March 08	

	the entire municipality at 30 June 2007 could therefore not be accurately determined.	this matter			
<b>15</b>	<b>Cash Flow Statement</b>				
	<p>During the audit of the municipality's cash flow statement it was noted that the information disclosed in note 23 to the financial statements were not correct. The following deficiencies were noted:</p> <p>Capital charges amounting to R516 458 were not added back to the surplus for the year but were subtracted and netted against the non-trade expenditure.</p> <p>Non trade income amounting to R7 670 278 in respect of the external financing fund was incorrectly disclosed as an appropriation against income.</p>	<p>Note has been taken and care will be taken in future to ensure that the Cash Flow Statement is correctly comply.</p>	Financial Manager	31 August 08	

	Investment income of R375 856 was netted against the non-trade expenditure.				
	<b>Emphasis of matters</b>				
<b>17</b>	<b>Highlighting a matter affecting the financial statements</b>				
<b>(a)</b>	<b>Water distribution losses increased drastically</b>				
	<p>The water distribution loss amounted to 42.83% (2006: 20%) for the financial year according to annexure F to the financial statements. Based on the cost per unit purchased this resulted in a loss of R5 808 103 (2006: R2 028 632) for the municipality. This loss was considered to be abnormally high and had increased drastically from the previous year</p>	<p>The Council has implemented a program in which water leakages can be detected and repaired.</p> <p>The help of Bloem Water and the DWARF has also been requested as a large portion of the infrastructure is very old.</p>	Director: Technical Services	On-going	
<b>(b)</b>	<b>Fruitless expenditure identified</b>				

	As disclosed in note 31 to the financial statements, fruitless expenditure amounting to R742 275 was identified during the 2006-07 audit of Kopanong Local Municipality in respect of interest and penalties on late payments, salaries paid to employees that were on long sick leave or not yet retired and a councillor that was overpaid	As discussed during the audit all the money paid except for the over payment of the Councillor was due to the long history of a very negative cash flow and was not due to any employee not doing his or her work. This situation will improve as the cash flow improves.  The Accounting Officer is busy with the Councillor who was overpaid to ensure the money is collected.	Director: Finance          Municipal Manager	On-going          30 June 08	
<b>18</b>	<b>Non-compliance with applicable legislation</b>				
<b>(a)</b>	<b>Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</b>				
	No evidence that a draft service delivery and budget implementation plan was prepared and submitted Section 69(3)(a) of the MFMA stipulates that				

	the accounting officer must no later than 14 days after approval of an annual budget submit to the mayor a draft service delivery and budget implementation plan for the budget year. Section 53(1)(c)(ii) of the MFMA stipulates that the mayor of a municipality must take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget. No evidence could be obtained that a draft service delivery and budget implementation plan for the 2007-08 budget year was prepared and submitted as required	SDBIP's will be compiled for the 2007/08 financial year and each year thereafter.	Director: Finance	31 March 08	
	<b>Delegations of authority not approved and implemented</b>				
	In terms of section 79(1)(a) of the MFMA the accounting officer of a municipality must	The Municipal Manager			

	develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration. The approved delegations of authority and an indication of the date of approval/implementation date could not be submitted for auditing purposes	is busy with the delegations of powers	Municipal Manager	31 March 08	
	<b>Invalid orders</b>				
	Sections 65(1) and 65(2)(a) of the MFMA stipulate that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the	The order attached to the voucher was a duplicate as the original is been forwarded to the supplier. The Budget Accountant does not sign the duplicate to ensure that no employee can present the copy as an original to a supplier. We however take note of your concern and will in future sign both copies but the copy on the	Budget Accountant	On-going	

	approval, authorisation, withdrawal and payment of funds. Various orders were noted that were not signed as proof of authorisation	voucher will be stamped as a duplicate.			
	<b>Payments not made timeously</b>				
	In terms of section 65(2)(e) of the MFMA the accounting officer of a municipality must ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. Several instances amounting to R2 669 928 were found where it could not be confirmed whether the payment was made within 30 days of receipt of the invoice	The payments were made late due to the negative cash flow of the municipality and this will improve as and when the cash flow improves.	Director: Finance	On-going	
<b>(b)</b>	<b>Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)</b>				
	<b>Performance contracts</b>				



	<b>not submitted</b>				
	<p>In terms of section 57(1) of the MSA, a person may be appointed as the municipal manager of a municipality, and as a manager directly accountable to the municipal manager, only in terms of a written employment contract with the municipality complying with the provisions of this section and subject to a separate performance agreement concluded annually. The 2006-07 performance agreements for the section 57 managers listed below could not be submitted for auditing purposes:</p> <p>Municipal Manager  Director: Corporate Services  Director: Finance  Director: Community Services  Director: Technical Services</p>	<p>Performance Agreements had been signed from the 2007/08 financial years</p>	<p>Municipal Manager</p>	<p>On-going</p>	
	<b>No approved salary structure</b>				

	<p>Section 66 of the MSA stipulates that a municipal manager, within a policy framework determined by the municipal council and subject to any applicable legislation, must amongst others attach to those posts the remuneration and other conditions of service as may be determined in accordance with any applicable labour legislation and establish a processor mechanism to regularly evaluate the staff establishment and, if necessary, review the staff establishment and the remuneration and conditions of service. Evidence that the aforementioned requirements were complied with could not be obtained</p>	<p>The municipality does have an approved organogram but no salaries are attached to the different posts. The reason is that due to the fact that the job evaluation is still in process and has not yet been completed by SALGA. A number of employees therefore still earn different salaries although they do the same jobs.</p> <p>As soon as the job evaluations had been completed the organogram will be changed to add the salaries.</p>	Director: Corporate Services	30 June 08	
	<b>Electricity Regulation Act, 2006 (Act No. 4 of 2006)</b>				
	The licence for the distribution of electricity from the	The matter will be			

	National Energy Regulator of South Africa (NERSA) that was submitted to audit had expired on 30 June 2006. A licence for the 2006-07 financial year and the approval of the tariffs by NERSA as required in terms of the Electricity Regulation Act could not be submitted.	investigated and a full report will be submitted to the AG's Office	Director: Community Services / CFO Centlec	31 March 08	
<b>19</b>	<b>Matters of governance</b>				
	<b>Effectiveness of internal audit and the audit committee</b>				
	Contrary to section 166 of the MFMA the audit committee did not perform certain functions and this resulted in the audit committee not operating effectively, which constituted a weakness in the governance structure.	A new Chairperson has been appointed and regular meetings will now be held	Director: Finance	On-going	
	Thus effective, efficient and transparent systems of financial and risk management,	See above	Director: Finance	On-going	

	<p>internal control and internal audit operating in accordance with any prescribed norms and standards were not maintained as required in terms of section 62(1)(c) of the MFMA. This resulted in internal audit not operating effectively</p> <p>Contrary to section 165 of the MFMA the internal audit did not perform certain functions and this also resulted in internal audit not operating effectively, which constituted a weakness in the governance structure</p>	The Audit Committee will approve the audit plans and therefore the Internal Auditor will start to operate.	Municipal Manager	28 February 08	
<b>20</b>	<b>Going Concern</b>				
<b>(a)</b>	<b>Funds and Reserves</b>				
	<p>The closing balance of funds and reserves amounted to R20 878 845, whereas only R8 855 640 (investments and positive bank balance) was invested internally and externally at year-end, resulting in a</p>	<p>This problem comes from the former transitional local councils and due to the negative cash flow of the Council it is</p>	Director: Finance	On-going	

	shortfall of R12 023 205. It therefore appeared that funds and reserves were utilised to finance the operating activities of the council. The above-mentioned matter was also reported in the previous reports	impossible to correct.  This will only be corrected once the municipality has got a positive cash flow.			
<b>(b)</b>	<b>Debtor accounts</b>				
	The consumer debtors increased by R5 024 732 from R51 574 563 at 30 June 2006 to R56 599 295 at 30 June 2007. The average period to recover debtors was calculated to be 299 days, which is considered exceptionally long	The municipality has an internal credit control section and an external debt collection company. They are doing all in their power to collect as much of the outstanding debtors.  The biggest problem is that the municipality has not yet resolved to write off any debt due to the fact it is trying to collect all outstanding debt. It will however start to write off all debt that is not collectable.	Director: Finance	30 June 08	
<b>(c)</b>	<b>Personnel expenditure</b>				
	Salary deductions in				

	respect of pension fund, income tax and unemployment insurance, insurance funds and medical aid amounting to R11 133 186 at 30 June 2007 (R12 668 321: 2006) had not been paid over to the parties concerned. This could lead to civil and/or criminal charges against the council resulting in losses, which could cast a significant doubt on the ability of the municipality to continue operating as a going concern as a result of heavy litigation.	<p>The municipality is succeeding in lowering the outstanding amounts and also with negotiations with the pension funds to repay the outstanding arrears.</p> <p>The municipality had further succeeded in paying the monthly salary creditors on a monthly basis from February 2007.</p>	Director: Finance	On-going	
<b>(d)</b>	<b>Operating activities</b>				
	The accumulated deficit amounted to R19 392 139 at 30 June 2007 (R22 611 792: 2006)	The municipality is also decreasing the accumulated deficit each year.	Director: Finance	On-going	
<b>(e)</b>	<b>Payment of creditors</b>				
	The municipality failed to make payments to the creditors as and when due, as required in terms of section	As mentioned above the municipality can not always pay all its creditors within 30 days	Director: Finance	On-going	

	138(a) of the MFMA, and it defaulted on financial obligations for financial reasons.	due to cash flow problems. This will improve as and when the cash flow approves.			
<b>(f)</b>	<b>Creditor accounts</b>				
	The average payment rate in respect of creditors was calculated at 97 days compared to the norm of 60 days. According to section 65(2)(e) of the MFMA, all money owing by the municipality has to be paid within 30 days of receiving the relevant invoice. The bank overdraft as disclosed in the balance sheet increased from R2 473 892 to R2 800 355.	The municipality is succeeding in lowering the creditors each year and this will continue until all the arrears had been brought up to date.	Director: Finance	On-going	
<b>22</b>	<b>Internal Control</b>				
	Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and	The Municipal Manager And the Director: Finance is improving the internal control on an on-going basis	Municipal Manager / Director Finance	On-going	

	internal control.				
	<b>Control environment</b>				
	<p>The municipality did not establish the key elements of a control environment to achieve sound financial management. This resulted in an inadequate level of skills and knowledge to enable the financial statements to be accurately prepared in accordance with the applicable basis of accounting, which in turn gave rise to many corrections to the financial statements resulting from matters identified.</p>	<p>The Finance Department is busy with training on an on-going basis and skills will improve.</p>	<p>Director: Finance</p>	<p>On-going</p>	
	<b>Assessment of risks</b>				
	<p>Inadequate management of risks was facing the municipality as it sought to achieve its mission and objectives. It was noted that the formal risk assessment for the year was not performed and implemented</p>	<p>The Internal Auditor has done an assessment of the risks but it has not yet been approved by Council. This will in future be done on a yearly basis</p>	<p>Municipal Manager / Internal Auditor</p>	<p>30 June 08</p>	



	<b>Control activities</b>				
	<p>In terms of the MFMA, the municipality is required to ensure that an effective and efficient system of internal control is in place. Management had not identified the actions and control activities needed to address the risks surrounding numerous cycles and had not developed and implemented appropriate policies and procedures. It was also noted that the control activities that needed to address the risks surrounding the recording of transactions in respect of electricity supplied by Centlec were not effective. This is evident from the matters reported.</p>	<p>The Municipal Manager And the Director: Finance is improving the internal control on an on-going basis</p>	<p>Municipal Manager / Director Finance</p>	<p>On-going</p>	
	<b>Information system controls and communication</b>				

	<p>An information systems (IS) audit of the general controls at Kopanong Local Municipality was completed in November 2006 and the findings were reported to the accounting officer.</p> <p>The most significant weaknesses identified during the audit were the following:</p> <p>A comprehensive IT security policy and user account management procedures had not been developed.</p> <p>Duties were inadequately segregated as at least one user involved in normal user activities also had access via the administrator user account.</p> <p>The user account parameters with regard to passwords were set to an inadequate level to ensure sufficient logical access control.</p>	<p>The IT Manager is busy developing a policy</p> <p>This will be stopped as an IT Manager had been appointed</p> <p>IT Manager will investigate and correct the password control</p>	<p>IT Manager</p> <p>IT Manager</p> <p>IT Manager</p>	<p>30 June 08</p> <p>Completed</p> <p>28 February 08</p>	
--	--	---	---	--	--

	The above-mentioned weaknesses indicated that management had not established the required level of control over key IT processes, which were consequently exposed to significant control risks.				
	<b>Monitoring controls</b>				
	The monitoring of controls, such as the review of reconciliations, confirmations from external parties and the internal audit process, was not effective. The internal audit division did not provide an effective service to management by assisting them in their governance responsibilities	Controls will be implemented.	Municipal Manager / Director: Finance	On-going	
	<b>Reporting on performance information</b>				
<b>30</b>	<b>Non-compliance with regulatory requirement</b>				
	<b>No quarterly reporting</b>				

	<b>on performance information</b>				
	No quarterly reports on the progress in achieving measurable objectives and targets were prepared as a whole for Kopanong Local Municipality to facilitate effective performance monitoring, evaluation and corrective action	Quarterly reports will be implemented	Director: Corporate Services	31 March 08	
	<b>Existence and functioning of a performance audit committee</b>				
	Kopanong Local Municipality did not appoint and budget for a performance audit committee, neither was another audit committee utilised as the performance audit committee.	The municipality will appoint a performance audit committee	Municipal Manager	31 March 08	
	<b>Internal auditing of performance measurements</b>				
	Kopanong Local Municipality did not				

	develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal auditing processes as required in terms of section 45 of the MSA	The Internal Audit Plan will include this in future	Internal Auditor / Municipal Manager	31 March 08	
	<b>No input, output and outcome indicators or targets set for KPIs</b>				
	Section 26(f) of the MSA requires that the integrated development plan (IDP) must include the key performance indicators and performance targets set in terms of section 41 of the MSA. Section 41(1)(a) of the MSA identifies key performance indicators (KPIs) and performance targets as key components of the municipality's performance management system. KPIs and performance targets must be set for the development	The new five year IDP will include the KPI's	Director: Corporate Services/ Municipal Manager	30 June 08	

	<p>priorities and objectives contained in the IDP. For each of the development issues and objectives in the IDP the council must set input indicators (i.e. indicators that measure the costs, resources and time used to produce an output), output indicators (i.e. indicators that measure the results of activities, processes and strategies of a programme of the municipality) and outcome indicators (i.e. indicators that measure the quality and/or impact of an output on achieving a particular objective).</p> <p>No input, output and outcome indicators or targets were set for the KPIs indicated in the municipality's IDP.</p>				

<b>AUDIT COMMITTEE MEETING HELD ON THE 14<sup>TH</sup> JANUARY 2008 AT KOPANONG BOARDROOM, TROMPSBURG.</b>
--

## **1. OPENING**

The Chairperson welcomed all present in the first Audit Committee meeting for the year 2008.

## **2. AGENDA**

The agenda was circulated on time.

## **3. APOLOGIES**

Apologies from the Municipal Manager. Mr Mpikheleli informed the committee members about the resignation of a fellow, Mr Vermeulen who has relocated to Delmas. He further cited that as management they are looking at the issue of finding his replacement. The auditors

## **4. MATTERS ARISING FROM PREVIOUS MINUTES**

The Director Finance Department proposed that this meeting be a special audit committee meeting. In the next meeting this item will be considered.

### **4.1 ANNUAL REPORT**

This report will be tabled in the Executive and Council meeting. Mr Stayne informed the committee in KPL is one of the municipalities that received a qualified report but there are still some challenges.

Mr Mpikheleli raised a concern on SDBIP. He said it is a continuous query because it is part of the annual report. The accounting officer should make a follow up on this issue.

The report represents the fair views of the Municipality.

### **4.2 TIME FRAME / SCHEDULE**

One meeting per quarter should sit. Mr Rapulungoane said meeting for this quarter should sit before the end of March 2008. The internal auditor raised a concern on the fact that she is unable to perform her duties. Mr Mpikheleli will take this matter to the Municipal Manager.

A suggestion for an urgent meeting was made which will look into this issue. The Mr Mpikeli suggested that before they decide on the date, they should look at the dates of Exco & Council.

## **CLOSURE**

The Chairperson thanked everyone and the meeting was officially closed.