

KOPANONG LOCAL MUNICIPALITY

ANNUAL REPORT FOR THE FINANCIAL YEAR ENDING 30 JUNE 2011



RP274/2011

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KOPANONG LOCAL MUNICIPALITY

ACTION PLAN IN RESPECT OF AUDITOR GENERAL REPORT TO THE FREE STATE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS OF KOPANONG LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2011

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
4.	<p>Property, plant and equipment</p> <p>1. For reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness, classification and valuation of, and rights to, property, plant and equipment amounting to R362 142 160 (2010: R330 551 220), as disclosed in the statement of financial position and note 8 to the financial statements. Due to the extent of the weaknesses in the municipality's fixed asset records, the lack of sufficient appropriate supporting documentation and no reliance that could be placed on the internal verification of assets, alternative audit procedures could not be performed. Consequently, I was unable to determine the existence, completeness, classification and valuation of, and rights to, property, plant and equipment.</p>				
a	<p>Investment property was not disclosed in the financial statements, although the municipality had property that met the definition of investment property in the SA Standards of GRAP, GRAP 16 <i>Investment Property</i>. Due to the lack of properly maintained registers, which detailed the location, value and classification of properties between owner-occupied and investment properties, I was thus unable to perform all the audit procedures that I considered necessary to confirm that property, plant and equipment had been appropriately classified in the financial statements.</p>	<p>A register will be compiled and kept up to date to ensure that investment properties are disclosed in the financial statements</p>	<p>Asset Accountant</p>	<p>01/01/2012</p>	<p>30/06/2012</p>
b	<p>Several assets to the value of R292 083 734 (2010: R265 226 539) could either not be physically verified</p>	<p>All assets with vague and/or unclear descriptions will be identified and proper descriptions will be</p>	<p>Asset Accountant/IMEASA</p>	<p>01/01/2012</p>	<p>30/06/2011</p>

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	or could not be traced back to the asset register, owing to vague and unclear descriptions or insufficient detail with regard to the location of the specific asset.	added to the asset register			
c	The municipality did not account for depreciation or impairment charge for the current and the prior financial years, as required by the SA Standards of GRAP, GRAP 17, <i>Property, plant and equipment</i> , which states that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses.	The Municipality became part of the pilot project of Provincial Treasury to help implement GRAP 17 and this will ensure that depreciation and impairment can be done as soon as the project had been completed.	Asset Accountant/IMEASA	01/01/2012	30/06/2012
d	The municipality did not identify and disclose servitudes which meet the definition or recognition criteria according to the SA Standards of GRAP, GRAP 102, <i>Intangible assets</i>	The Technical Department will identify all servitudes and supply the Asset Accountant with a full list and values for disclosure.	Director: Technical/ Assets Accountant	01/01/2012	30/06/2012
e	The asset register does not include details on the classification of property, plant and equipment between land, buildings, infrastructure, community, other property, plant and equipment and heritage, as disclosed in the financial statements.	All assets will be classified as part of the pilot project and the asset register will be corrected.	Asset Accountant	01/01/2012	30/06/2012
f	The municipality did not evaluate lease contracts, in the prior and the current financial years, to determine whether it substantially transfers all the risks and rewards incidental to ownership and should be classified as a finance lease according to the SA Standards of GRAP, GRAP 13, <i>Leases</i> .	All leases will be evaluated in future to determine whether they are finance or operational leases.	CFO	'01/02/2012	'30/06/2012
G	Assets acquired at no cost, or for a nominal cost, were not valued at its fair value at the date of acquisition according to the SA Standards of GRAP, GRAP 17, <i>Property, plant and equipment</i> .	All assets will be valued as part of the pilot project	Asset Accountant / IMEASA	'01/01/2012	'30/06/2012
H	Property, plant and equipment included in the municipality's equipment register were not valued and recognised in terms of the SA Standards of GRAP, GRAP 17, <i>Property, plant and equipment</i> . Consequently, none of these assets were disclosed in the financial statements.	All equipment will be valued and included in the asset register of the municipality.	Asset Accountant	'01/02/2012	'30/06/2012
I	Supporting documentation, including invoices, to confirm acquisitions of property, plant and equipment	The relevant documentation will be found and submitted to the Office of the Auditor-General.	Expenditure Accountant	'01/02/2012	'28/02/2012

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J	amounting to R887 464 could not be obtained Property amounting to R1 861 338 (2010: R3 132 077) was not registered in the name of the municipality. Supporting documentation, to confirm whether property has been registered in the name of the municipality, amounting to R1 437 583, could not be obtained.	The Asset Accountant will verify these assets through the deeds office and changes will be made to the asset register where needed.	Asset Accountant	'01/02/2012	'30/06/2012
5	The municipality expensed assets, which had to be recognised in terms of the SA Standards of GRAP, GRAP 17, <i>Property, plant and equipment</i> . Had this transaction been correctly treated property, plant and equipment would have increased by R852 606, general expenses decreased by R207 894 and repairs and maintenance by R644 712 as disclosed in note 8 and note 27 respectively of the financial statements	The Asset Accountant will correct these entries and in future all repair and maintenance transactions will be verified to ensure that its allocation is correct.	Asset Accountant/Finance Manager	'01/02/2012	On-going
6	Revenue As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to confirm the completeness, accuracy, occurrence and classification of revenue disclosed as R184 951 607 (2010: R164 202 415) in the statement of financial performance.				
a	No reconciliation could be provided between the actual income levied for assessment rates and a calculation of the assessment rates income based on the valuation roll. The performance of alternative procedures to recalculate assessment rates individually and compare them with the actual assessment rates charged for receivables for the current year, indicated that assessment rates were understated by R2 492 926 (2010: R3 487 416).	A rates reconciliation will be done for 2010/11 and 2011/12	Rates Accountant	01/01/2012	30/06/2012
b	Accurate route lists for water charges amounting to R5 857 570, could not be provided. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the accuracy, completeness and occurrence of water charges. The municipality's records did not permit the application of alternative procedures. Furthermore, several differences relating to the monthly accumulated water charges for the	All route lists will be filed to ensure that they can be submitted to the Auditor-General and a Customer Care Officer had been appointed to help to improve the meter readings.	Income Accountant/Chief Accountant/Customer Care Officer	01/01/2012	On-Going

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	financial period were noted between accounts for receivables and performed recalculations from water meter readings. The differences were caused by meter readings not being captured in a complete and accurate manner from route lists to the receivables system. The error in this respect amounted to R161 518 (2010: R4 501 010).				
c	Property rental registers were not always prepared, reviewed and reconciled to the general ledger during the financial year. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness and accuracy of revenue from this source that amounted to R902 212 (2010:R1 055 816) for the year under review.	New contracts of all properties had been obtained by the Housing Section and the Income Account will keep a register on a monthly basis to reconcile with the system.	Income Accountant/ Chief Accountant	01/12/2011	On-going
d	As a result of community uprising regarding the lack of service delivery, the Reddersburg unit at the Kopanong district was destroyed by fire. The unit no longer had sufficient and appropriate audit evidence in the prior financial year to support the completeness, accuracy and occurrence of revenue recorded by them, as most of the supporting documentation was destroyed in the fire. Furthermore, the control of receipts and deposit books in the prior financial year was insufficient at other units and several receipts and deposit books could not be submitted. As a result, the completeness, occurrence and accuracy of revenue could not be confirmed.	All Units had been given an instruction to ensure that all documents be kept in the strong rooms at all times. This will ensure that documents are safe guarded in future.	Unit Managers	01/07/2011	On-going
e	A complete list or register of rotating electricity meters registered at the Kopanong district, in the prior financial year, could not be provided by the electricity service provider or by the municipality. I was thus unable to confirm whether debtor accounts existed and whether meter readings were taken in respect of all installed electricity meters. The revenue arising from the sale of electricity as per the general ledger and the revenue arising from the sale of electricity as per the billing system did not agree as well. Furthermore, a difference of R930 873 during the prior financial year was identified that could not be explained. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness of revenue from this source that	Centlec will compile a full list of all rotating electricity meters for audit purposes	Centlec/CFO	01/01/2012	30/06/2012

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f	<p>amounted to R10 045 901.</p> <p>Receipts to a value of R467 282 could not be traced to bank statements to confirm that the receipts were in fact deposited in the municipality's bank account. The municipality's records did not permit the application of alternative procedures. As a result, sufficient appropriate audit evidence as to the completeness and accuracy of bank deposits amounting to R467 282 could not be obtained.</p>	<p>The Income Accountant with the help of the relevant Unit Managers will find the bank deposit books and receipts and submit it to the Auditor-General's Office.</p>	Income Accountant/Unit Managers/Chief Accountant	01/01/2012	31/03/2012
g	<p>The prepaid electricity sales data for the period 1 April 2010 to 30 June 2010 could not be verified, as the information submitted did not agree to the control totals. As a result, sufficient appropriate audit evidence could not be obtained as to the completeness, occurrence and accuracy of the prepaid sales of R17 355 324, in the prior financial year, as included in the sale of electricity in note 22 to the financial statements. The system did not allow for the performance of alternative audit procedures. Furthermore, prepaid electricity sales were not calculated accurately throughout the financial period as a difference of R2 134 770 was noted between actual prepaid electricity sales, as included in note 22 to the financial statements, and prepaid electricity sales re-calculated. As a result no reliance could be placed over the systems implemented to account for prepaid electricity sales. Consequently, sufficient appropriate audit evidence could not be obtained as to the completeness, occurrence and accuracy of the prepaid sales of R18 437 269, as included in the sale of electricity in note 22 to the financial statements.</p>	<p>Centlec will reconcile the prepaid electricity sales and will supply it to the Auditor-General with supporting documents</p>	Centlec/CFO	01/01/2012	30/06/2012
h	<p>Supporting documentation with regard to direct income (electricity reconnections and connections) amounting to R455 382 (2010:R159 104) could not be obtained. Alternatively, a list of quotations was obtained, but the list was not only limited to quotations in respect of connections and could therefore not be traced to direct income. In the absence of supporting documentation, the occurrence, accuracy and classification of this income could not be confirmed.</p>	<p>Centlec will obtain information and forward it to the Auditor-General</p>	Centlec/CFO	01/01/2012	30/06/2012

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7	No refuse and sewerage service charges have been charged to debtors for services rendered during the financial year. Had this transaction been correctly treated service charges would have increased by R1 024 347, the VAT payable would have increased by R143 408 and trade receivables from exchange transactions would have increased by R1 167 755 as disclosed in note 14 and note 3 respectively of the financial statements.	The Income Section is busy with a 100% audit of all the accounts to verify that each account have the correct services and also has an existing contract.	Income Accountant/Chief Accountant/Rates Accountant	01/01/2012	31/03/2011
8	The electricity service provider did not make an estimate of unmetered sales between 23 June 2011 and 30 June 2011. Had this transaction been correctly treated trade receivables from exchange transactions, as disclosed in note 3 of the financial statements, would have increased and the accumulated surplus decreased by R234 346.	Centlec will calculate this estimate at year end in future	Centlec/CFO	30/06/2012	31/07/2012
9	Expenditure I was unable to obtain supporting documents for expenditure amounting to R570 175 (2010:R640 194) as the municipality had not implemented adequate control measures to prevent and identify expenditure incurred without supporting documents. The entity's records did not permit the application of alternative procedures. Consequently, I was unable to determine the occurrence, completeness, accuracy and classification of expenditure of R570 175 (2010:R640 194) included in expenditure of R152 619 181 (2010:R162 597 880), as disclosed in the statement of financial performance.	The documents will be obtained and it will be submitted to the Auditor-General's Office.	Expenditure Accountant	01/02/2012	31/03/2012
10	Supporting documentation for trade and other payables written off against general expenditure amounting to R888 892, as disclosed in note 10 to the financial statements in the prior year could not be obtained. The municipality's records did not permit the performance of alternative procedures. Consequently, I was also unable to determine the	The documents will be obtained and it will be submitted to the Auditor-General's Office.	Expenditure Accountant	01/02/2012	31/03/2012

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11	<p>occurrence, completeness, accuracy and classification of expenditure of R888 892 included in expenditure of R162 597 880 for the prior year, as disclosed in the statement of financial performance.</p> <p>Supporting documentation to confirm the classification of expenditure amounting to R190 000 could not be obtained. The municipality's records did not permit the application of alternative procedures. Consequently, sufficient appropriate audit evidence as to the classification of repairs and maintenance amounting to R190 000, could not be obtained.</p>	<p>The documents will be obtained and it will be submitted to the Auditor-General's Office.</p>	Expenditure Accountant	01/02/2012	31/03/2012
12	<p>Included in debt impairment, as disclosed in note 24 of the financial statements, are bad debts written off amounting to R193 240 which related to accounts which has been written off in previous financial years. The municipality incorrectly processed transactions to these accounts during the previous and current financial years and wrote off transactions processed erroneously against these accounts, during the current financial year. The municipality's records did not permit the performance of alternative procedures. Consequently sufficient, appropriate audit evidence as to the accuracy and occurrence of debt impairment amounting to R193 240, included in note 24 of the financial statements, could not be obtained.</p>	<p>The Income Accountant will reconcile the old SAMRAS accounts as they should have no balances.</p>	Income Accountant/Chief Accountant	01/01/2012	30/06/2012
13	<p>Trade and other Payable</p> <p>The municipality included consumer deposits relating to the electricity service provider, to a value of R407 781 in note 10 to the financial statements. An accurate and complete consumer deposit listing relating to the deposits could, however, not be obtained. The electricity service providers' records did not permit the application of alternative audit procedures. Consequently, sufficient appropriate audit evidence as to the valuation of these deposits could not be confirmed. Furthermore, the consumer deposits relating to the rotating electricity debtor</p>	<p>Centlec will provide the list to the Auditor-General's Office</p>	Centlec/CFO	01/02/2012	31/03/2012

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14	<p>accounts were incorrectly allocated in the prior financial year to the service provider's deposit account. The impact of this on the municipality could not be quantified, as the system of the service provider could not identify the deposits of the municipality. Due to the limitations placed on the scope of the work performed relating to deposits, there were no satisfactory alternative audit procedures that I could perform to confirm the valuation and allocation, completeness, rights and obligations, and existence of consumer deposits of the prior financial year.</p> <p>Supporting documentation for corrections amounting to R1 883 893 made to the South African Local Authorities Pension Fund payable, included under trade and other payables in note 10 to the financial statements, could not be obtained. The municipality's records did not permit the performance of alternative procedures. As a result, sufficient appropriate audit evidence regarding the occurrence and accuracy of these adjustments could not be obtained.</p>	<p>The letter received from the SALA Pension Fund will be obtained and it will be submitted to the Auditor-General's Office</p>	Finance Manager	01/02/2012	28/02/2012
15	<p>The municipality did not accrue for invoices in respect of goods and services received amounting to R5 170 569. If these invoices had been accrued the effect would have been to increase trade and other payables by R5 170 569, property, plant and equipment by R2 393 795, operating expenditure by R101 815, employee-related cost by R331, bulk purchases by R1 476 593, finance costs by R429 493 and a decrease of the VAT payable by R435 496, and the accumulated surplus by R333 046, as disclosed in note 10,8,26,25,23,17 and 14 respectively of the financial statements. The effect on unspent grants and income from grants and subsidies, as disclosed in note 13 and 20 of the financial statements, relating to these payments amounted to R2 728 923.</p>	<p>This will be corrected. A creditor's system will also be put in place to ensure that this does not happen in future.</p>	Finance Manager	01/01/2012	30/06/2012
16	<p>Sufficient appropriate audit evidence could not be obtained in respect of the accrual for leave amounting to R3 450 073 (2010: R3 624 104), as disclosed in the statement of financial position and notes 10 and 4 to the financial statements. This was</p>	<p>The Corporate Directorate is busy with the process of correcting the leave.</p>	Director: Corporate	01/01/2012	30/06/2012

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	due to inaccurate and incomplete leave records maintained for municipal staff. Furthermore, a difference amounting to R1 810 378 was noted in the prior financial year between the provision recalculated by the municipality, based on leave days available at 30 June 2010, and the leave provision as per the financial statements. In the absence of other supporting documentation and a proper system of control over accumulated leave, I was unable to perform alternative procedures.				
17	Accounts Receivable For reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the existence, valuation and presentation of disclosure of receivables amounting to R31 508 855 (2010: R21 636 164) as disclosed in notes 3 to 5 to the financial statements and the statement of financial performance:				
a	Several debtor accounts amounting to R4 428 498 (2010:R6 371 595) were in arrears at financial year-end; however, no subsequent payments were made by these debtors for three months after year-end. Additionally, the service agreements entered into between the municipality and the debtors could not be obtained. As a result, sufficient and appropriate audit evidence regarding the existence of these debtors could not be obtained.	These debtors will be investigated during the 100% audit and if they do not exist anymore a report will be taken to Council to write off these amounts. .	Income Accountant/Chief Accountant	01/12/2011	30/06/2012
b	Supporting documentation for the cash control account amounting to R957 339, as disclosed in note 4 to the financial statements, could not be obtained. As a result, sufficient appropriate audit evidence regarding the existence and valuation of these debtors could not be obtained.	The Financial Manager is busy checking the cash control account as the income section has allocated a large amount of funds from previous years to this account while reconciling the accounts of public works.	Financial Manager	01/10/2011	31/03/2012
c	The International accounting standard, IAS 39, <i>Financial instruments recognition and measurement</i> , states that an entity shall assess, at the end of each reporting period, whether there is any objective evidence that a financial asset or group of financial assets is impaired. A provision for the impairment	IAS 39 had been implemented in the 2009/10 financial year and a full assessment had been done of all consumers to determine the bad debt reserve. The Bad Debt Reserve had then been increased to R 61 million for the 2010/11	Financial Manager	01/12/2012	31/03/2012

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d	<p>amounting to R61 029 399 has been disclosed in notes 3 to 5 to the financial statements. The provision calculated was not based on the actual balance outstanding per individual debtor as the information could not be obtained from the municipality's financial system. Due to the lack of sufficient information alternative procedures could not be performed. As a result sufficient, appropriate audit evidence as to the accuracy of the provision of doubtful debt and the completeness and valuation of receivables could not be obtained.</p> <p>The municipality did not make all the disclosures in terms of the International financial reporting standard, IFRS 7, <i>Financial instruments disclosure</i>, which states that an entity shall disclose by class of financial instrument information about the credit quality of financial assets that are neither past due nor impaired. The municipality did not disclose the ageing of accounts receivable per major class of revenue and per the various consumer categories. The reconciliation of the provision for doubtful debts did also not include details pertaining to debts written off during the financial year</p>	<p>financial year. Impairment was also done. The problem is however that the system can't give an age analysis of the rates. This problem had already been given through to SEBATA to solve the problem.</p> <p>The disclosure will be made in future.</p>	CFO/Finance Manager	01/07/2012	31/07/2012
18	<p>Employee Cost</p> <p>In terms of a court-settlement agreement reached during the previous financial year, the municipality was ordered to pay an amount equal to two months' gross salary to each of the respondents. The municipality did not maintain accurate registers to indicate how the liability in terms of the settlement agreement was discharged. Alternative procedures to reconcile the amounts owing per the settlement agreement to payment schedules prepared by the municipality did not provide sufficient evidence that the liability has been discharged. Consequently, sufficient appropriate audit evidence as to the completeness and accuracy of employee related costs and the valuation and completeness of trade and other payables, included in note 10 to the financial statements, for the current and prior</p>	<p>A register will be compiled and it will be submitted to the office of the Auditor-General.</p>	Expenditure Accountant	01/02/2012	28/02/2012

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	financial years could not be obtained.				
19	<p>VAT Payables</p> <p>The electricity service provider incorrectly processed VAT transactions against the VAT payable, which did not pertain to the financial affairs of the municipality. Had this transaction been correctly treated VAT payables as disclosed in note 14 to the financial statements would have decreased by R1 266 341 and trade and other payables as disclosed in note 10 to the financial statements would have increased by the same amount.</p>	Centlec will correct these entries.	Centlec/CFO	01/01/2012	29/02/2012
20	<p>Unspent Conditional Grants and Receipts</p> <p>No information and details could be obtained for unspent conditional grants amounting to R1 204 047 (2010: R1 556 428) included in note 13 to the financial statements and the revenue for government grants and subsidies amounting to R16 475 549 (2010:R32 106 294). Furthermore, the municipality did not provide accurate reconciliations of the balance of unspent grants at the beginning of the year to the balance unspent at the end of the financial year for grants and subsidies as disclosed in note 20 to the financial statements. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to gain adequate audit assurance as to the valuation, completeness and existence of unspent conditional grants and receipts as well as the occurrence, accuracy and completeness of revenue from grants and subsidies.</p>	New registers will be implemented at the PMU and Finance Department to provide the detail as requested by the Auditor-General.	Finance Manager/PMU Finance Manager	01/03/2012	31/03/2012
21	<p>Inventory</p> <p>The municipality did not conduct a water inventory</p>	The water inventory will be determined with the help of IMEASA when they are involved with the	Director: Technical/IMEASA/Financial	30/06/2012	30/06/2012

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	count and therefore did not record and value water inventory in accordance with the SA Standards of GRAP, GRAP 12, <i>Inventory</i> , for the current and prior financial years. Due to the extent of the weaknesses alternative audit procedures regarding water inventory could not be performed. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness and valuation of inventories, as disclosed in the statement of financial position and note 2 to the financial statements.	infrastructure	Manager		
22	Provisions Provision has not been made for the environmental rehabilitation costs of restoring the entity's landfill sites. A provision should be made for the entity's present obligation incurred as a consequence of its past use of the landfill sites in accordance with the SA Standards of GRAP, GRAP 19, <i>Provisions, contingent liabilities and contingent assets</i> . Due to a lack of adequate information, alternative procedures could not be performed to determine the value of this provision. Consequently, provisions and property, plant and equipment are understated by an unquantifiable amount.	Engineers will be appointed to determine this cost to ensure that it be included in the financial statements	Director: Technical/CFO	01/01/2012	30/06/2012
23	Provision has not been made for long service awards as per the South African Local Government Bargaining Council collective agreement on conditions of service for the Free State division of SALGBC. A provision should be made for current service costs incurred in accordance with the International Accounting Standard, <i>IAS 19 Employee benefits</i> . Due to a lack of adequate information, alternative procedures could not be performed to determine the value of this provision. Consequently, provisions and expenditure are understated by an unquantifiable amount.	The detail will be obtain from the Corporate Directorate and a calculation will be made to ensure that proper provision are been made.	Finance Manager/Director: Corporate	01/06/2012	30/06/2012
	Long Term Liabilities				

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24	I was unable to obtain loan agreements in respect of long-term liabilities amounting to R2 590 896 (2010:R2 849 553) included in long-term liabilities, as disclosed in the statement of financial position and in note 11 to the financial statements. Alternative procedures performed to obtain the agreements from external sources were also not successful. I was thus unable to obtain sufficient appropriate audit evidence as to the existence and valuation of, and the municipality's obligation in respect of, long-term liabilities.	Centlec will obtain the contracts and submit it to the Auditor-General.	Centlec/CFO	01/02/2012	29/02/2012
Funds and Reserves					
25	According to the statement of changes in net assets prior year adjustments amounted to R1 126 862. In accordance with the SA Standards of GRAP, GRAP 3, <i>Accounting policies</i> , disclosures pertaining to the nature of the adjustment and the financial statement line items affected should be made. No disclosure has been made in the municipality's financial statements. Furthermore, supporting documentation for adjustments made against the accumulated surplus amounting to R1 136 772, could not be obtained. I was thus unable to obtain sufficient appropriate audit evidence as to the occurrence and accuracy of these adjustments. Due to the lack of supporting documentation alternative procedures could not be performed.	The documentation of adjustments against the accumulated surplus will be obtained and will be submitted to the Auditor-General	Financial Manager	01/03/2012	31/03/2012
26	Incomplete and inaccurate journals were posted by the municipality to de-recognise finance leases for which the lease term has expired in the prior financial year. Had this transaction been correctly treated the accumulated surplus would have decreased by R795 775, property plant and equipment as disclosed in note 8 to the financial statements by R620 096, general expenditure as disclosed in note 27 to the financial statements by R186 321 and finance costs as disclosed in note 26 to the financial statements would have increased by R10 642.	This matter will be investigated and will be corrected if needed.	Financial Manager	01/03/2012	31/03/2012
27	Included in the statement of changes in net assets are funds relating to the housing development fund amounting to R511 395. The fund showed no	This fund came over from the former TLC's and the advice from Provincial Treasury on how to	Finance Manager	11/01/2012	31/01/2012

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	movement during the previous five financial years and the municipality no longer carries out activities relating to the fund. It could therefore not be established whether the fund should be maintained. Alternative procedures could not be performed in this regard. I was thus unable to obtain sufficient appropriate audit evidence to determine the existence, rights to and valuation of the fund	solve this matter will be obtained.			
28	<p>Capital Commitments</p> <p>The municipality did not maintain a record of capital commitments already contracted for but not provided for, which provided particulars of all approved capital contracts, the expenditure incurred to date and the municipality's future capital commitment in respect of each contract. The municipality did also not retain records of all capital contracts awarded. A register for retention fees was also not maintained, thus the completeness and valuation of the retention payables could not be determined. Supporting documentation for capital commitments not yet contracted for and authorised could also not be submitted. In the absence of sufficient appropriate audit evidence, there were no satisfactory audit procedures that I could perform to determine the completeness, existence, valuation and obligations of capital commitments amounting to R51 061 359 (2010: R81 676 629), as disclosed in note 31 to the financial statements.</p>	A Contract register will be implemented at the PMU Office to ensure that all the detail needed can be provided to the Auditor-General at year end.	Director Technical/ CFO	On-going	On-going
29	<p>Contingent Liabilities</p> <p>The SA Standards of GRAP, GRAP 19, <i>Provisions, contingent liabilities and contingent assets</i>, require that an estimate of the financial effect of a contingent liability should be disclosed. No disclosure has been made in note 32.1 to the financial statements for the contingent liability relating to disputes with former employees. As an alternative, legal confirmations were requested from the municipality's attorney's, but where not be obtained. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness, valuation and presentation and</p>	The liability will be determined and will be included in the financial statements	Expenditure Accountant/Financial Manager	01/02/2012	30/06/2012

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	disclosure of contingent liabilities included in note 32 to the financial statements				
30	Unauthorised, Irregular and Wasteful Expenditure Section 1 of the MFMA defines irregular expenditure as expenditure incurred by a municipality that is not in accordance with a requirement of this act, and which has not been condoned in terms of section 170. Irregular expenditure amounting to R 1 239 179 (2010: R832 109) was incorrectly included as irregular expenditure in note 39 to the financial statements.	A new register will be compiled to ensure that the information is correct for disclosure in the financial statements	CFO/Financial Manager	01/11/2011	On-going
31	Section 125(2)(d) of the MFMA requires the municipality to disclose particulars of irregular expenditure in the notes to the financial statements. The Preferential Procurement Policy Framework Act Regulations for the procurement of goods and services was not adhered to for expenditure amounting to R1 522 870. The expenditure was not disclosed as irregular in note 39 to the financial statements.	The disclosure will be corrected in the financial statements	CFO/Finance Manager	01/11/2011	30/06/2012
32	Distribution Losses Distribution losses for electricity amounting to R2 397 712 was disclosed in note 41 to the financial statements. The distribution loss calculated did not include losses for the last five months of the financial year as accurate and complete data was not available. The entity's records did not permit the application of alternative procedures. Consequently, sufficient appropriate audit evidence as to the completeness, valuation and presentation and disclosure of the distribution losses could not be obtained.	Centlec will correct these figures	Centlec/CFO	01/01/2012	30/06/2012
	Cash Flow Statements				

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
33	I was unable to obtain sufficient appropriate audit evidence to determine whether the cash flow statement and the related notes were fairly stated. Taking into account the misstatements and scope limitations identified in the financial statements, as set out in this report, I was unable to practically quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine the accuracy, completeness and disclosure of the cash flow statement and related notes.	The Cash Flow Statements will be checked if corrected if needed.	GOBODO/Finance Manager	01/01/2012	30/06/2012
	Emphasis of Matters				
	Restatement of corresponding figures				
35	As disclosed in note 18 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the 2009-10 financial year in the financial statements of the Kopanong Local Municipality at, and for the year ended, 30 June 2010.	Completed	Completed	Completed	Completed
	Material losses and Impairments				
36	As disclosed in note 41 to the financial statements material distribution losses amounting to R9 580 579 for the sale of water and R2 397 712 for the sale of electricity was incurred.	The Municipality must install new meters and is in the process of sourcing finances for the purchasing of new meters. Centlec will address the electricity losses	CFO/Technical Director Centlec/CFO	On-Going On-Going	On-Going On-Going
37	As disclosed in notes 3 to 5 and note 24 to the financial statements, the provision for impairment of receivables amounted to R61 029 399 and debts written off amounted to R14 784 362 as a result of the municipality's inability to recover debtor accounts.	Completed	Completed	Completed	Completed

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
38	<p>Financial Sustainability</p> <p>As disclosed in note 35 to the financial statements, the municipality is experiencing serious difficulties with regard to debt collection. The municipality also did not settle its debt within 30 days as required by the MFMA and is significantly dependent on the national and provincial governments for its continued sustainability. These conditions, along with other matters, point to the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern. The municipality may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.</p>	<p>The municipality has developed a Recovery Plan to help to improve the financial situation of the municipality.</p> <p>The municipality is also doing credit control on a daily basis but it is limited due to restraints in resources.</p> <p>Collections through legal processes had also been implemented.</p>	CFO	On-Going	On-Going
39	<p>Unauthorised, irregular as well as fruitless and wasteful expenditure</p> <p>As disclosed in notes 37 to 39 to the financial statements, unauthorised, fruitless and wasteful and irregular expenditure of R15 915 324 (2010: R58 414 061) R3 588 401 (2010: R8 366 399) and R38 917 831 (2010: R38 237 464), respectively, was incurred. This was due to overspending on the budgeted votes, payment of interest and penalties and non-compliance with SCM policies and procedures.</p>	<p>The Council already approved the Unauthorised Expenditure.</p> <p>The Irregular, Fruitless and Wasteful expenditure will be investigated and a report will be submitted to Council</p>	<p>Completed</p> <p>CFO/Financial Manager</p>	<p>Completed</p> <p>01/03/2012</p>	<p>Completed</p> <p>'30/06/2012</p>
	<p>Report on other legal and regulatory requirements</p>				
40	<p>Predetermined objectives</p> <p>I was unable to conduct the audit of performance against predetermined objectives as the actual performance of the municipality and its service provider for electricity was not adequately reported in the annual performance report as no reporting against predetermined objectives, indicators and targets was recorded for the current and the previous financial years in the annual</p>	<p>The PMS Office is working on a new PMS that will contain KPI's and KPA's that will be linked to the IDP and SDBIP..</p>	PMS Officer	01/01/2012	31/05/2012

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
	performance report				
41	<p>Presentation of information</p> <p>Measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).</p>	A PMS Officer had been appointed and reports are now been sent to Council quarterly.	PMS Officer and all Directors	01/07/2011	On-Going
42	<p>Reliability of information</p> <p>The reported performance information was deficient in respect of the following criteria:</p> <p>Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.</p>	A PMS Officer had been appointed and reports are now been sent to Council quarterly. A complete annual report will also be submitted	PMS Officer	30/06/2012	31/08/2012
43	<p>The following audit findings relate to the above criteria:</p> <p>The integrated development plan did not include:</p> <p>Key performance indicators determined in accordance with its performance management system, as required by sections 26(i) and 41(1) (a) of the MSA and regulation 9 of the Municipal Planning and Performance Management Regulations, 2001.</p> <p>Performance targets determined in accordance with its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.</p> <p>A financial plan which must include a budget projection for at least the next three years, as required by sections 26(h) of the MSA and regulation 2(3) of the Municipal Planning and Performance Management Regulations, 2001.</p>	<p>The IDP is in the process of been changed to include KPI's and targets to ensure that measurement can be done</p> <p>A financial plan which includes the three year budget will form part of the IDP in future</p>	<p>IDP Manager</p> <p>IDP Manager/CFO</p>	<p>01/01/2012</p> <p>01/01/2012</p>	<p>31/05/2012</p> <p>31/05/2012</p>
	Compliance with laws and regulations				

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
	Strategic planning and performance management				
44	The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.	A Performance Management Framework had been adopted.	PMS Officer	Completed	Completed
45	The accounting officer of the municipality did not, by 25 January, assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.	An Assessment Report on the performance of the municipality will be tabled on the 24 th January 2012.	Accounting Officer	01/01/2012	24/01/2012
46	The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury, as required by section 72(1)(b) of the MFMA.	The results of the mid-year assessment report will be sent to both NT and PT.	Accounting Officer	01/02/2012	14/02/2012
	Budget				
47	The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.	The main reason was additional provision for bad debt and Council already approved the overspending.	CFO/Finance Manager	Completed	Completed
	Annual financial statements, performance and annual reports				
48	The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.	The financial statements were late due to Centlec. A meeting had already taken place and Centlec were requested to ensure that their statements must be completed by mid-August each year,	CFO/Finance Manager	01/07/2012	15/08/2012

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
49	The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.	The Oversight Report will in future be made public within the relevant time period as per legislation.	CFO/Financial Manager	01/04/2012	07/04/2012
50	The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46 of the MSA.	The Performance Report will be corrected in future.	PMS Officer	01/07/2011	30/06/2012
51	The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion	Care will be taken in future to ensure that statements are correct before submitted to the Auditor-General.	CFO/Financial Manager	01/07/2012	31/08/2012
Audit committees					
52	No audit committee was in place for the period 15 December 2010 to 24 March 2011, as required by section 166(1) of the MFMA.	An Audit Committee was appointed	Accounting Officer	Completed	Completed
53	The audit committee did not function as required by section 166 of the MFMA, in that: the audit committee did not advise the council of the municipality on matters relating to performance evaluation the audit committee did not respond to the council on any issues raised by the auditor-general in the audit report the audit committee did not meet at least four times a year.	The Committee will advise Council in future. The Committee respond to Council in future The Committee is now meeting four times a year.	Accounting Officer Accounting Officer Accounting Officer	On-going On-going On-going	On-going On-going On-going
54	The performance audit committee or another committee functioning as the performance audit committee did not perform the following, as required by Municipal Planning and Performance				

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
	<p>Management Regulation 14: Meet at least twice during the financial year</p> <p>Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality</p> <p>Review the municipality's performance management system and make recommendations in this regard to the council of the municipality</p> <p>Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.</p>	<p>Will meet correctly in future</p> <p>The new Committee will function correctly in future.</p>	Accounting Officer	On-going	On-going
55	<p>Internal audit</p> <p>The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.</p>	<p>The Internal Audit Section is now auditing the PMS System on a quarterly basis and will report to the Accounting Officer.</p>	Chief Internal Auditor	On-Going	On-Going
56	<p>The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the MSA as required by Municipal Planning and Performance Management Regulation 14.</p>				
57	<p>The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators, as required by Municipal Planning and Performance Management Regulation 14.</p>				
58	<p>The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by</p>				

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
	Municipal Planning and Performance Management Regulation 14.				
	Procurement and contract management				
59	Supporting documentation, to determine whether awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulation 44, could not be obtained.	This will be obtained in future and kept for audit purposes.	Procurement Officer	On-going	On-going
60	Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM regulation 17(a) and (c).	Three quotations are now obtained.	Procurement Officer	On-going	On-going
61	Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulations 16(b) and 17(b).	This had been stopped and purchases are now only been done from suppliers on the database.	Procurement Officer	On-going	On-going
62	Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of SCM regulation 13(c).	See point 59	Procurement Officer	On-going	On-going
63	Awards were made to providers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by SCM regulation 43.	Tax clearance certificates are now obtained.	Procurement Officer	On-going	On-going
64	The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).	The preference points system had been implemented.	Procurement Officer	On-going	On-going
65	Bid specifications were not always drafted by bid specification committees, which consisted of one or more officials of the municipality, as required by SCM regulation 27(3).	The bid committee is now sitting.	Accounting Officer/CFO	On-going	On-going
66	Final awards and recommendation of awards to the accounting officer were not always made by an adjudication committee, which consisted of at least				

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
67	<p>four senior managers of the municipality, including: the CFO or, if the CFO is not available, another senior manager in the budget and treasury office reporting directly to the CFO and designated by the CFO</p> <p>at least one senior SCM practitioner who is an official of the municipality</p> <p>a technical expert in the relevant field, who is an official of the municipality, if the municipality has such an expert as per the requirements SCM regulation 29(2).</p> <p>The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.</p>	<p>The committees had been corrected.</p> <p>The performance of contractors will be measured in future.</p>	Accounting Officer	On-going	On-going
68	<p>Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).</p>	<p>No purchases of above R200 000 without tenders will be allowed in future</p>	Procurement Officer	On-going	On-going
69	<p>Human resource management and compensation</p> <p>Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.</p>	<p>Performance agreements are now in place.</p>	Accounting Officer/Directors	Completed	Completed
70	<p>The municipal manager did not provide a job description for each post in the staff establishment, as required by section 66(1)(b) of the MSA.</p>	<p>Job Descriptions will be developed.</p>	Director: Corporate	01/02/2012	30/06/2012
71	<p>Expenditure management</p> <p>Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.</p>	<p>Due to the cash flow situation this can still not always be achieved. Credit Control is been done on a daily basis and legal processes had also been implemented.</p>	CFO/Credit Accountant Control	On-going	On-going

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
72	The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which recognised expenditure when it was incurred and accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.	The creditor module from the financial system will be implemented.	Expenditure Accountant/Finance Manager	01/03/2012	31/05/2012
73	The accounting officer did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.	Systems had been put in place to prevent these expenses and a monthly report is taken to Council.	CFO/Procurement Officer/Expenditure Accountant	On-going	On-going
74	Conditional grants The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for the municipal infrastructure grant, as required by section 11(2)(c) of DoRA.	All reports will be sent in future according to the legislation.	Director: Technical	On-Going	On-Going
75	Revenue management The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which recognised revenue when it is earned and accounted for debtors, as required by section 64(2)(e) of the MFMA.	The Income Section is busy with a 100% audit of each debtor's account to ensure that all accounts are correct and that the information on the system is correct.	Income Accountant/Chief Accountant/Rates Accountant	01/12/2011	30/06/2012
76	Asset management The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which accounts for the assets of the municipality, as required by section 63(2)(a) of the MFMA.	The municipality is part of the pilot project to convert the asset register to GRAP. This will solve the outstanding issues.	Asset Accountant/CFO	01/12/2012	30/06/2012
77	The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.	Internal controls will be reviewed and improved were needed.	Asset Accountant/CFO	'01/02/2012	On-going





**RESPONSES
AUDIT COMMITTEE
2010 - 11**

REPORT OF THE KOPANONG LOCAL MUNICIPALITY AUDIT COMMITTEE - FOR THE YEAR 2010/11

1. Background

The Audit Committee was established on 1st September 2009. Its purpose is to provide:

- Independent assurance on the adequacy of governance, risk management and internal control processes;
- Independent scrutiny of the municipality's financial and non-financial performance to the extent that it affects the municipality's exposure to risk and weakens the control environment; and to
- Oversee the financial reporting process.

The key benefits of an Audit Committee can be seen as:

- Increasing public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and similar review processes;
- Providing additional assurance through a process of independent review; and
- Raising awareness of the need for adequate internal controls, effective performance and the implementation of audit recommendations and compliance with laws and regulations.

The Terms of Reference for the Committee are compiled in accordance with Section 166 of the MFMA and the King III Report on Corporate Governance, and are enshrined in the Audit Committee Charter.

2. Audit Committee Members and Attendance

The Audit Committee consisted of four (4) members and was scheduled to meet four (4) times per annum in terms of its approved terms of reference. The members listed below were appointed with effect from 01 September 2009 and their term of office ended on the 31st December 2010. During the year for which this report refers, two (2) meetings were held and attendance of members is indicated hereunder:

Member	Number of meetings held	Number of meetings attended
Mr. M Mahlokoana (Chairperson)	2	2
Mr. K Rapulungoane	2	2
Mr. S Majola	2	2
Mr. A Maphoto	2	2

New members, listed below, were appointed for a three year term with effect from 01 March 2011. The newly established Audit Committee held its first meeting after the year end.

Member	Number of meetings held	Number of meetings attended
Mr. M Segalo (Chairperson)	0	0
Mr. K Rapulungoane	0	0
Mr. S Majola	0	0
Mr. V Vapi	0	0

3. Audit Committee Responsibility

The audit committee was established to assist in improving management reporting by overseeing internal and external audit functions, internal controls, and the financial reporting process, compliance with accounting policies, legal requirements, internal controls and other policies within the Municipality. It interacts with and evaluates the effectiveness of the external and internal audit processes and reviews compliance with the code of ethics.

The audit committee reports that it has complied with its responsibilities arising from Section 166 of the Municipality Finance Management Act ("the Act") and Treasury Regulations 27.1.8 and 27.1.10. The audit committee consists of non-executive members including the chairperson and it has also adopted formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged most of its responsibilities as contained therein. The exception to the legislative requirements mentioned above is the committee's inability to report to the council as is required by section 166 of the MFMA.

4. The adequacy and effectiveness of governance, risk management and control

The internal audit unit of the Municipality has furnished the audit committee with reports of its evaluation of the adequacy and effectiveness of governance, risk management and internal control processes within the Municipality. It is the view of the committee that, although, the governance, risk management and internal control processes are partly adequate and partly effective efforts are put in place to improve the internal control environment of the Municipality.

Governance

All significant structures and processes that provide strategic direction are in place and functioning as intended. The structures referred to include the Council, the Audit Committee, the SMS, the Executive Management and the Internal Audit Unit. While the Council functions effectively, the Audit Committee has not reported to this structure in the 2010/11 financial period.

Risk Management

Kopanong Municipality has developed and approved a risk management strategy but has not established the Risk Management Committee for managing and monitoring of risks on an ongoing basis. During the period ending 30 June 2011, reports relating to risk management were presented to the Audit Committee. Based on the risk management reports presented, the Committee is satisfied that risk within the Municipality is reasonably managed.

Internal Controls

Based on the reports presented to the Audit Committee by the Internal Audit Unit, the Audit Committee has noted that existing internal controls are partly adequate in most areas within the Municipality and therefore partly effective, during the financial year ended 30 June 2011.

5. The quality of management and monthly/quarterly reports submitted in terms of the Act

The quality of in year management and monthly/quarterly reports submitted in terms of MFMA and the Division of Revenue Act is reasonable.

6. Evaluation of Financial Statements

The Audit Committee has:

- Reviewed and discussed with the Accounting Officer the Audited Annual Financial statements to be included in the annual report;
- Reviewed the Accounting Policies and Practices
- Reviewed the Auditor General's management letter and management response; and
- Reviewed significant adjustments resulting from the audit.
- Reviewed the entities compliance with legal and regulatory provisions.

The Audit Committee concurs with and accepts the conclusions of the Auditor General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Audit General.

7. Conclusion

The committee is grateful for the co-operation and support shown by the Municipal Manager, Ms. L. Moletsane, and her team throughout the reporting period.



Mr. MM SEGALO

Chairperson of the Audit Committee

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FOREWORD BY THE MAYOR



Mayor: Councilor TX Matwa

It gives me great pleasure to present to the communities of Kopanong Municipality, this Annual Report for financial year 2010/2011.

This Annual Report articulates the responses, by the Municipality, to the expressed needs and aspiration of the people of Kopanong Municipality for growth and development, as expressed during our public participation in the processes of reviewing our IDP and Budget processes. In short, this annual report captures the extent to which we have addressed the will and expectations of our people.

We are truly committed to ensuring genuine participatory democracy in governance in our Municipality. The adoption of the National Local Government Turnaround Strategy(LGTAS), we also convened a consultation meeting throughout Kopanong to give our communities opportunities to make's inputs to our own Municipal Turnaround strategy, which was one of our guiding tool to improve service delivery.

Regarding services delivery, our Municipality is on course. We have allocated sites to our communities where there are serviced site around Kopanong, we continue to provide free 6kl of water and 50kw of electricity to the registered indigents in accordance with the provisions in our Indigent Policy.

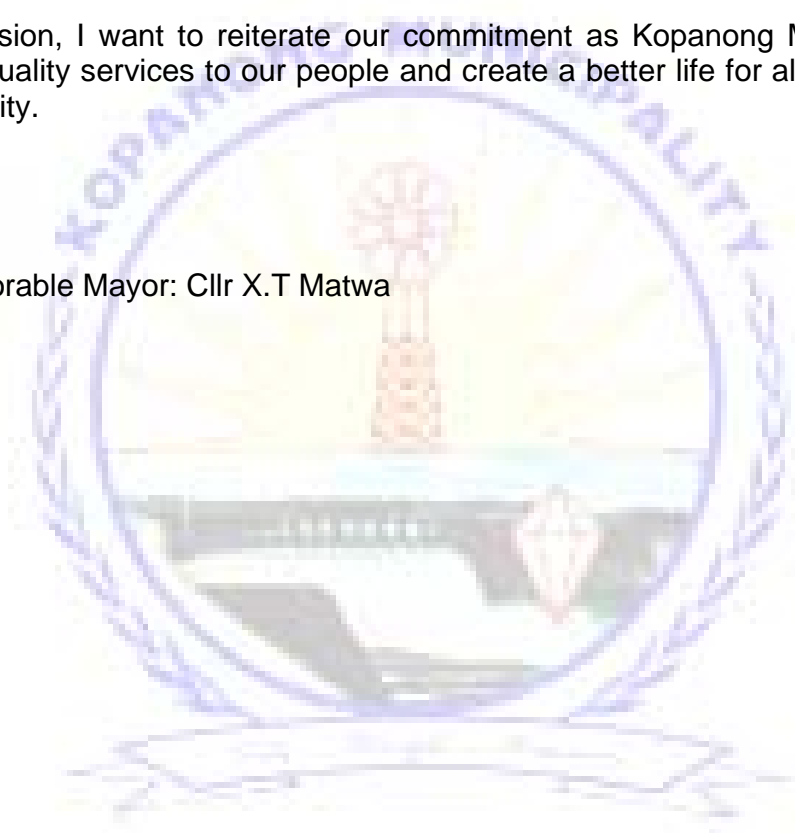
Regarding the audit report we once again, regrettably got a disclaimer for non-compliance on supporting documentations and internal controls weakness and asset register. However, with our current framework we have strengthened our internal controls and for financial recovery plans, we envisage to undo this unforeseen situation in due course.

It is my hope that our stakeholders, both within and outside Government, will also find in this report, reason to increase their input and involvement in development of Kopanong Municipality and its people and the report will go a long way in answering questions that are pertinent to our service delivery programs for the period under review.

In conclusion, I want to reiterate our commitment as Kopanong Municipality to provide quality services to our people and create a better life for all in Kopanong Municipality.


Signature

The Honorable Mayor: Cllr X.T Matwa



EXECUTIVE SUMMARY – MUNICIPAL MANAGER



Municipal Manager: LY Moletsane

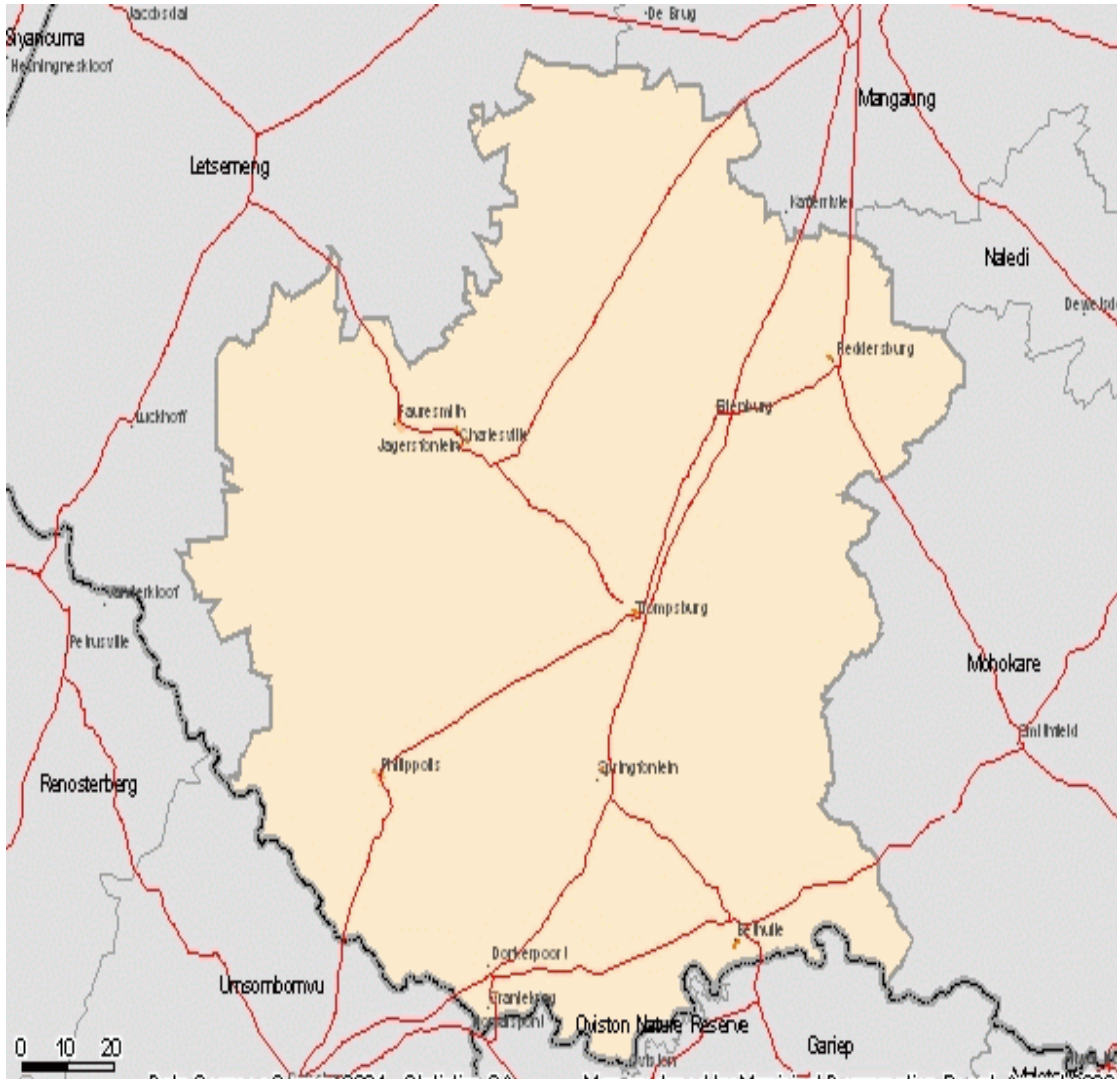
According to the Municipal Structures Act, Act No. 117,1998 the primary purpose of the municipality is:

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 as well as National 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 the previous financial Kopanong Local Municipality started to implement GRAP and consultants were appointed to implement and compile the financial statements. This process has continued during this financial year.



MAP OF KOPANONG LOCAL MUNICIPALITY

CHAPTER ONE

KOPANONG LOCAL MUNICIPALITY: The Broader Context

1.1 Spatial analysis of Kopanong

Kopanong Municipality is the biggest Local Municipalities in Xhariep District in terms of area and covers 11.7% of the Free State which is 1 523 407 Hectares. The other Municipalities in the Xhariep District are Mohokare, Letsemeng and Naledi.

The Kopanong Municipal consists of nine town's i.e. Reddesrsburg, Edenburg, Fauresmith, Jagersfontein, Trompsburg, Springfontein, Phillipolis, Bethulie and Gariep Dam

Basic agricultural products are exported from the area for processing and re-imported into the areas as consumer products – very little processing of agricultural products should be considered as a strategy to reduce dependence of the area on production of products that are processed elsewhere.

Historical events that took place in the municipality, aspects of the natural and man-made environment and local activities may form the basis for promoting tourism as a significant economic activity. Some of these events, man-made and natural environment aspects are:

- “Lake Gariep” and the Gariep water festival;
- Game reserve at Lake Gariep
- Jagersfontein Mine;
- The “ tiger project” at Phillipolis;
- The Orange River Ravine from the Gariep Dam wall to the P K le Roux Dam Wall;
- Battlefields of significant battles conducted during the Anglo-Boer War, e.g. Mostert's hoek
- Phillipolis “witblits” festival;
- Historial building in Phillipolis, e.g. the Dutch Reformed Church, library, old jail, the house where Lourens van der Post was born, Adam Kok, the Griqua leadre's house, kraal and structure where gunpowder was kept, and
- Fauresmith horse endurance run.

Soils

Southern areas of the Free State mostly have calcareous soils. According to the FSGDS the whole of the Xhariep District mainly has soils of intermediate to poor suitability for arable agriculture or forestry or grazing where climate permits. Xhariep with Thabo Mofutsanyane have the highest percentages of soils for conservation only.

Climate and geology

Temperatures are extreme, and the area experiences hot mid-summer conditions and very cold winters. The whole Kopanong is mainly lowlands with hills.

1.2 Demographic analysis

Following below is a number of Tables that summarize the population of Kopanong in terms of numbers, growth, gender, age, etc.

1.2.1 Population Distribution

The total population in the Municipality was 55,936 in 2001 of which 29,048 were female and 26,892 male. It is doubtful whether there is any major migration of people from outside the municipality into the municipality. Migration tends to be from commercial farms to the nine formal settlements and between the urban settlements within the municipality.

The total population were organized as 17,630 households, with the bulk of households (85%) being five or less members. Approximately 10,500 of households reside in the nine urban settlements.

Population Group

Persons	2001
African	40493
Coloured	9976
Indian	21
White	5451
Total Population	55941

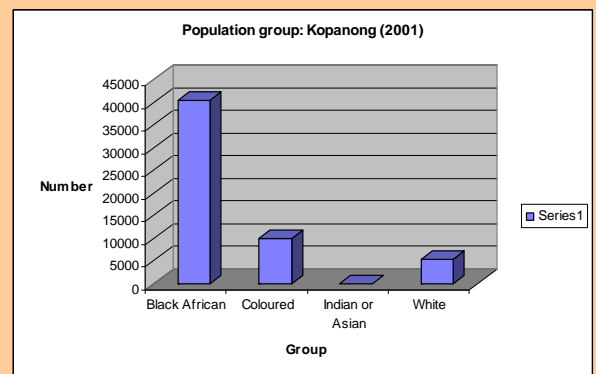
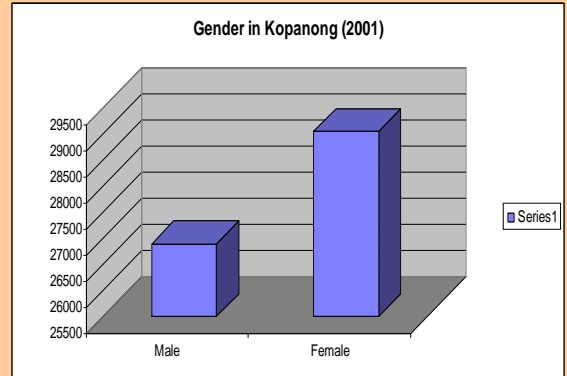


Table 1.2.1 (a) Population group - Kopanong

Gender in municipality

Gender by Age

Persons	2001
Male	26892
Female	29048



The above table indicates that there must be effort made to ensure that women developmental activities are prioritized. These activities should include opportunities in formal employment capitalizing on national policy provisions such as broad based black empowerment initiatives, Equal Employment Act and employers being gender sensitive in their quest to bring parity of gender in their employment strategies.

In terms of age, slightly less than half of the total population (42.4%) is younger than 20 years and 6,8% is 65 years old or older. Of the population that is younger than 20 years old 73% are of pre-school and school-going age. More than half of the population (50.8%) is between 20 and 64 years old.

Age Distribution of the municipality

Age

Age group	2001
0 to 4	5167
5 to 9	5960
15 to 19	6265
20 to 24	6337
25 to 29	4789
30 to 34	4057
35 to 39	3992
40 to 44	3583
45 to 49	3095
50 to 54	2744
55 to 59	2469
60 to 64	1931
65 to 69	1754
70 to 74	1394
75 to 79	914
80 to 84	674
85+	479

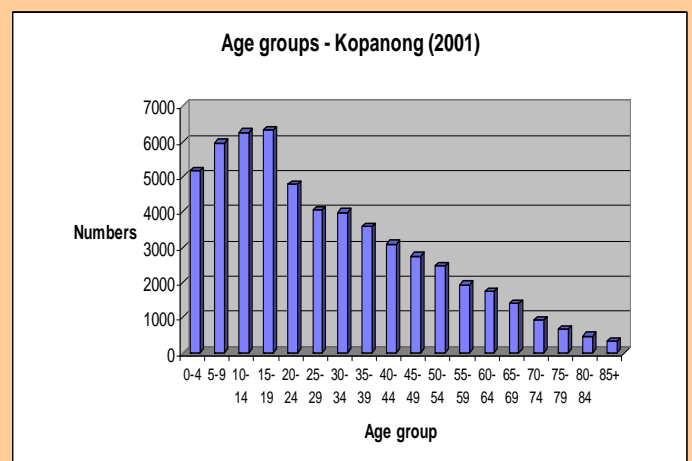


Table 1.2.1 © Age distribution - Kopanong

The age categories suggest quite a number of interventions in the area. For instance, in age category 5-19 the number is moderately high and thus indicating the need for quite a number of primary schools, sports and recreation facilities for children, among other initiatives especially where none or a few exist relative to such infrastructure. In particular, the age group 5-14 has a higher % population in the combined categories of 0-4. Their population category indicates a 15.71 to 16.47% of the total population in the province and is among the other three municipalities like Phumelela and Letsemeng in the province. On the 15-64, it should be assessed especially when it comes to employment creation, employment opportunities in the district, and a number of training institutions around and/or in the nearby municipalities. The Municipality must be prepared to equip the youth to be competitive in case they decide to migrate to other areas in order to find employment. For the aged, thought must be given to existing infrastructure meant for their livelihood like old age homes as well as the existing family support structures for their safe keep in their times of need.

1.3 Economic analysis

1.3.1 GDP

The economy of Kopanong is, like the remainder of the Southern Free State, is dominated by agricultural activities, with Kopanong contributing 45% (R95,545,000) to the GGP of Xhariep in 1996. Almost a third (4,700 persons) of the employed population is employed in the agricultural sector. The agricultural sector is dominated by large/extensive commercial farms with few small scale farms being found in the area.

The predominance of agriculture as primary economic activity in the area means that cycles of prosperity and decline experienced in the agricultural sector, impact on the economic prospects (i.e. whether their economies grow or decline) of the nine urban settlements.

The second biggest contributor to the district's GGP in 1996 was general government, contributing R58, 567,000 followed by financial services with R33, 341,000.

The extremely narrow economic base of Kopanong, i.e. the dependency of local communities on agriculture production, increase the area's vulnerability to economic downturns caused by adverse agricultural conditions, to economic downturns caused by adverse agricultural conditions, such as prolonged droughts, low prices for agricultural goods, e.g. wool prices, rapidly increasing wage in the agricultural sectors and so on. It is therefore important that the central thrust of any economic development strategy for the areas should aim to diversify the economic base.

Economic output is usually measured in terms of Gross domestic Product (GDP). At the national level Gross Geographic product (GGP) is used. Figure 2.3.2 (b) provides an overview of annual economic growth since 1995. The overall ten year growth rate between 1995

and 2005 was 19% which is 1.9% on average per annum. For the whole of the District it is on average 3.4% and for the Free State as a whole it is 2.6% per annum.

Economic: GDP 2005 - Free State, Xhariep, Kopanong					
CONCEPT	Gross domestic product at basic values (Rand, constant 2000 prices) Year	Units Value			
		1995	1996	2005	
P4: Free State	TO: Total	40833094022	43042883952	5.1309E+10	
	I01: Agriculture, forestry and fishing	922118966	2572326777	2579247209	
	Ml: Mining	6711598065	6206473543	5729312382	
	MA: Manufacturing	4488340812	4838332396	6483214778	
	EL: Electricity & water	1453223975	1591653591	1678575645	
	I17: Construction	1022506338	921448853.9	860255476	
	TR: Wholesale & retail trade; catering and accommodation	5150509393	5279360929	6592395578	
	TC: Transport & communication	3383406767	3549544646	4998616465	
	FB: Finance and business services	6531105421	6576189814	9240538760	
	I24: Community, social and other personal services	4445261842	4565697577	5947500290	
	I25: General government services	6725022443	6941855826	7199173891	
	P4D01: Xhariep District Municipality	TO: Total	1421590506	1605399127	1910418869
		I01: Agriculture, forestry and fishing	90795523.88	256299689.6	284038273
Ml: Mining		218364142.6	209382137.1	307102351	
MA: Manufacturing		66766787.33	71050124.14	83615728.2	
EL: Electricity & water		53420117.36	59086760.99	70343437.9	
I17: Construction		40357129.22	36984704.82	40159941.6	
TR: Wholesale & retail trade; catering and accommodation		219954042.6	221016668.5	218698354	
TC: Transport & communication		132991390.9	144705716.5	257498802	
FB: Finance and business services		197685548.9	195369181.9	205683918	
I24: Community, social and other personal services		133215849.3	136174195.1	169306844	
I25: General government services		268039974.2	275329948.8	273971218	
P4D01M02: Kopanong Local Municipality		TO: Total	588720768.9	670719575.3	700224763
		I01: Agriculture, forestry and fishing	41165406.27	114821556.9	114767016
	Ml: Mining	15031624.02	14910213.03	31116245.7	
	MA: Manufacturing	32210299.19	33464099.08	32631065.3	
	EL: Electricity & water	29225930.95	32570700.55	40753070.3	
	I17: Construction	23736278.36	21739048.17	23433538.5	
	TR: Wholesale & retail trade; catering and accommodation	72771366.8	74319895.1	89501515	
	TC: Transport & communication	58885424.43	62419577.82	82906181.5	
	FB: Finance and business services	121169857.6	118220209.9	87813771.8	
	I24: Community, social and other personal services	56995281.04	57449260.44	61192988.9	
	I25: General government services	137529300.2	140805014.3	136109370	

Table 1.3.1 (a) GDP Kopanong, Xhariep and Free State. 1995 and 2005

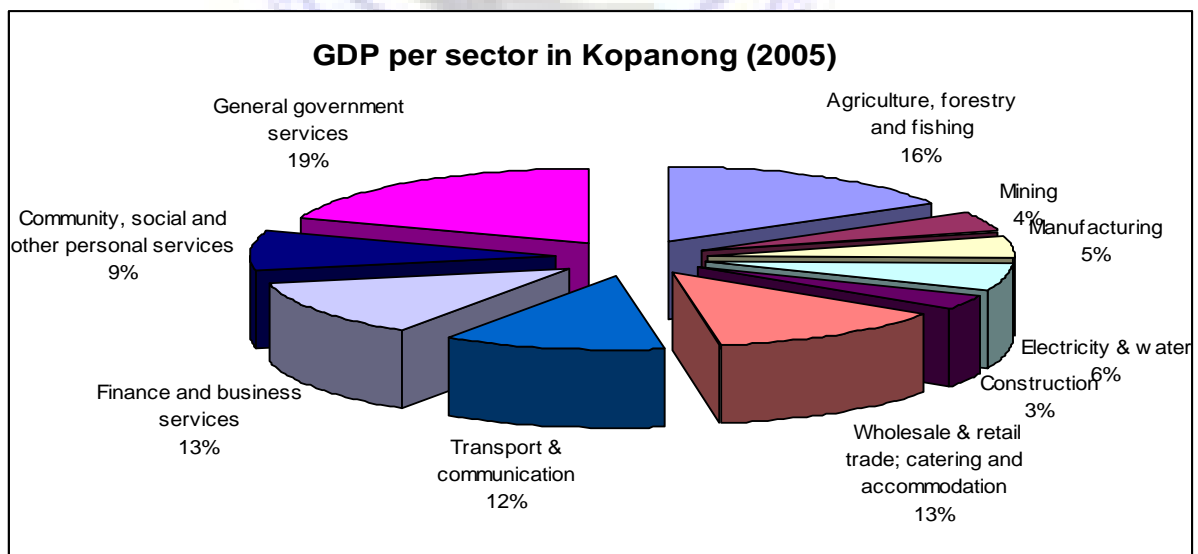


Figure 1.3.1 GDP per sector in Kopanong (2005)

P4D01M02: Kopanong Local Municipality		GDP 2005 (Place of work)									
domestic product at basic values (Rand, constant 2000)		Units	Value								
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Industry											
TO: Total	588720768.9	670719575.3	680546436.8	631759491.7	668325188.7	689763165.2	666928230.1	673594540.9	665278117.4	674273159.1	700224762.6
D1: Agriculture, forestry and fishing	41165406.27	114821556.9	117567641.5	76660913.04	102569921.7	126223998.9	107127337	106649672.7	96147342.12	95135138.82	114767016
Mt: Mining	15031624.02	14910213.03	15705463.36	14125093.96	14802246.74	14622614.03	14035414.92	18397666.57	21647457.19	25447535.06	31116245.65
MA: Manufacturing	32210299.19	33464099.08	34033310.79	32594147.75	33088145.3	34827014.07	34087900.52	33725979.74	32296709.94	32793746.92	32631065.34
EL: Electricity & water	29225930.95	32570700.55	36015313.54	34199836.69	33753477.08	34694969.39	34407430.86	36296088.65	37432443.86	39633113.98	40753070.32
I17: Construction	23736278.36	21739048.17	23785296.2	20187531.82	22673822.74	20895916.08	23103866.92	21442991.23	22909666.65	23567501.68	23433538.47
TR: Wholesale & retail trade; catering and accommodation	72771366.8	74319895.1	74568254.62	74706242.02	79140450.5	82836997.73	76087513.58	78722384.46	83620734.43	86815737.43	89501515.03
TC: Transport & communication	58885424.43	62419577.82	67319671.31	70720002.28	72348215.27	76525878.88	78900813.62	84683971.04	84020548.5	82780844.65	82906181.54
FB: Finance and business services	121169857.6	118220209.9	116737232.2	111576912.5	112108212.5	103127838	106037192.2	101416997	93911714.53	93093349.71	87813771.85
I24: Community, social and other personal services	56995281.04	57449260.44	56306415.57	58553585.46	59415086.49	60921082.07	60807877.66	60789945.3	61688975.56	60758769.66	61192988.89
I25: General government services	137529300.2	140805014.3	138507837.7	138438226.1	138425610.4	135086856.1	132332882.8	131469244.2	131622524.7	134247421.2	136109369.6

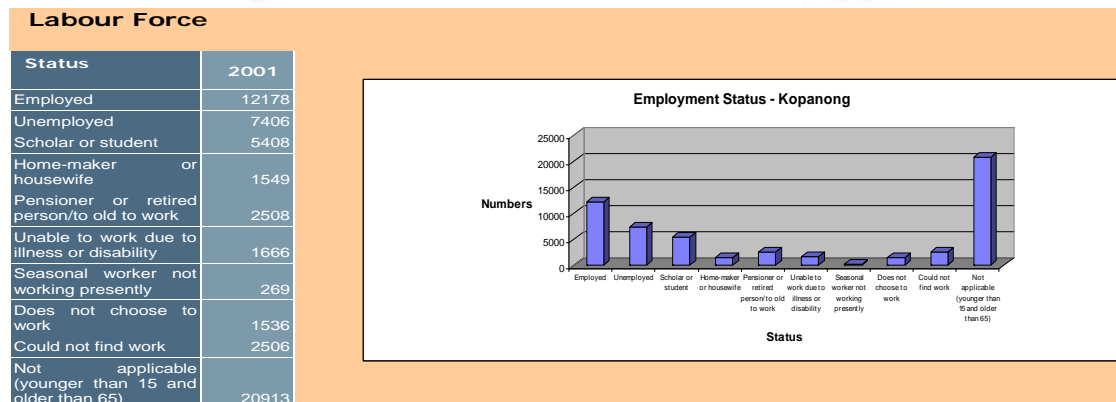
Table 1.3.1 (b) GDP per sector in Kopanong, 1995 and 2005

Figure 1.3.1 illustrates that the biggest contributor to GDP in Kopanong, is Government Services followed by agriculture. The smallest contributor to GDP is construction, followed by mining and manufacturing. One can assume that the latter (construction) will increase within the next year or three due to the current construction initiatives in the area. This picture could change drastically with influx of people to facilities and employment opportunities resulting from amongst others the hospital-under-construction in Trompsburg.

What is however more significant is the major growth in wholesale and retail trade from 1995 to 2005.

1.3.2 Employment

This section provides an overview of the employment profile in Kopanong.



The most recent formal and informal employment figure for 2006 according to the FSGDS is 35 961 - a rate of 70.6%. The informal employment could be significant as indicated in the figures of 2004 (FSGDS). The information provided next indicates that there is still a long way in terms of ensuring that there is work for all employable people in the area.

The total labour force of the Municipality, divided into employment and unemployment and economic in active people is provided. The rate for people living in poverty in Kopanong according to the FSGDS is approximately 40.2% which enforce a high demand for job opportunity creation.

Formal Employment

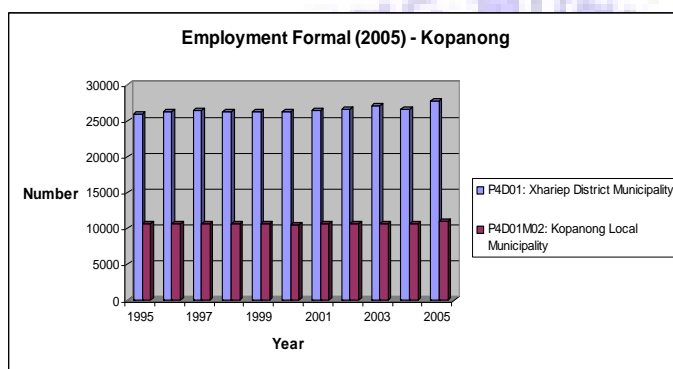


Table 1.3.2 (b) Employment – Kopanong 1995-2005

Economic: Formal Employment 2005											
CONCEPT	Employe	Industry	TO: Tot	Units	Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
P4D01: Xhariep District Municipality	26033	26259	26420	26322	26363	26324	26503	26727	27117	26693	27754
P4D01M02: Kopanong Local Municipality	10596	10646	10708	10657	10632	10582	10613	10680	10741	10596	10978

Table 1.3.2 © Formal employment 1995-2005

Formal Employment per sector

Agriculture, forestry and fishing

Economic: Formal Employment 2005											
CONCEPT	Employment		Indus	I01: Agriculture, forestry and fishing							
	1995	1996		Units	Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
P4D01: Xhariep District Municipality	10021	10256	10390	10504	10623	10709	10779	10623	11155	10829	10909
P4D01M02: Kopanong Local Municipality	3609	3686	3726	3760	3795	3819	3838	3776	3959	3838	3804

Table 1.3.2 (d) Employment – Agriculture, forestry and Fishing, Kopanong, 1995 - 2005

Community, social and other personal services

Economic: Formal Employment 2005	Employment		Indus	I24: Community, social and other personal services							
CONCEPT				Units	Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
P4D01: Xhariep District Municipality	3696	3687	3859	4029	4201	4376	4556	4761	4737	4858	4342
P4D01M02: Kopanong Local Municipality	1544	1538	1608	1678	1748	1820	1894	1978	1965	2014	1803

Table 1.3.2 (e) Employment – Community, Social and other personal services, Kopanong, 1995 - 2005

Compare to the performance of the District overall, a growth of approximately 17% over a period of 10 years which is insignificant is demonstrated for both the District and the Municipality.

Construction

Economic: Formal Employment 2005	Employment		Indus	I17: Construction							
CONCEPT				Units	Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
P4D01: Xhariep District Municipality	1180	1095	1072	975	821	790	785	764	720	689	887
P4D01M02: Kopanong Local Municipality	562	517	502	453	378	361	355	342	319	301	399

Table 1.3.2 (f) Employment – Construction, Kopanong, 1995 – 2005

A decline of employment in the construction industry is visible for both the District and the Municipality. With the current building activities in Trompsburg (including a hospital) one can assume that for at least the next two to three years this figure could increase drastically.

Electricity and water

Economic: Formal Employment 2005	Employment		Industry	EL: Electricity & water							
CONCEPT				Units	Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
P4D01: Xhariep District Municipality	168	172	168	176	180	169	166	171	167	170	219
P4D01M02: Kopanong Local Municipality	63	65	63	67	69	65	63	65	64	66	80

Table 1.3.2 (g) Employment – Electricity and water, Kopanong, 1995 – 2005

From the data provided in Table 2.3.2 (g) the conclusion can be drawn that this sector has low potential for employment opportunities in Kopanong.

Finance and Business Services

Economic: Formal Employment 2005	Employment		Indus	FB: Finance and business services							
CONCEPT				Units	Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
P4D01: Xhariep District Municipality	918	968	1049	1106	1122	1144	1227	1378	1394	1403	1840
P4D01M02: Kopanong Local Municipality	536	556	593	613	612	615	645	705	694	689	887

Table 1.3.2 (h) Employment – Finance and Business Services, Kopanong, 1995 - 2005

Over a ten year period of time the Finance and Business Services sector has shown a growth of 100% for the District and at least 65% for Kopanong. Although still minute in numbers, this sector promises more employment opportunities in future.

Manufacturing

Economic: Formal Employment 2005		Employment				Industry MA: Manufacturing						
CONCEPT		Units				Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
P4D01: Xhariep District Municipality	983	990	945	903	867	829	801	799	788	777	789	
P4D01M02: Kopanong Local Municipality	465	458	436	420	396	380	359	354	344	337	351	

Table 1.3.2 (i) Employment – Manufacturing, Kopanong, 1995 - 2005

It is not surprising that manufacturing in both the District and Kopanong is declining rapidly. This information corresponds with the information for the Free State as a whole.

Mining

Economic: Formal Employment 2005		Employment				Industry MI: Mining						
CONCEPT		Units				Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
P4D01: Xhariep District Municipality	1776	1712	1605	1428	1348	1316	1299	1326	1314	1210	1470	
P4D01M02: Kopanong Local Municipality	200	184	172	142	132	126	122	120	119	111	119	

Table 1.3.2 (j) Employment – Mining, Kopanong, 1995 - 2005

Mining activities in Kopanong is insignificant.

Transport and Communication

Economic: Formal Employment 2005		Employment				Industry TC: Transport & communication						
CONCEPT		Units				Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
P4D01: Xhariep District Municipality	566	548	527	410	398	376	355	356	335	318	437	
P4D01M02: Kopanong Local Municipality	319	303	286	219	208	192	177	173	158	147	208	

Table 1.3.2 (k) Employment – Transport and Communication, Kopanong, 1995 - 2005

A gradual decline over a ten year period in the number of employment opportunities in both the District and Municipality is visible.

Wholesale and retail trade, catering and accommodation

Economic: Formal Employment 2005		Employment				Industry TR: Wholesale & retail trade; catering and accommodation						
CONCEPT		Units				Value						
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
P4D01: Xhariep District Municipality	2014	2023	2045	2121	2287	2271	2300	2313	2349	2328	2500	
P4D01M02: Kopanong Local Municipality	870	876	891	923	992	990	1009	1023	1049	1053	1151	

Table 1.3.2 (l) Employment – Wholesale and retail trade, catering and accommodation, Kopanong, 1995 - 2005

An increase of at least 32% over ten years in employment is recorded in this sector. With greater emphasis on tourism, this figure might increase in future.

1.3.3 Annual Income

An alarming high % of the population of Kopanong reflects no income. This means that the poverty levels are extremely high. At least 40.2 % of the populations according to this statistics are poor. The demand for social service intervention will therefore be high.

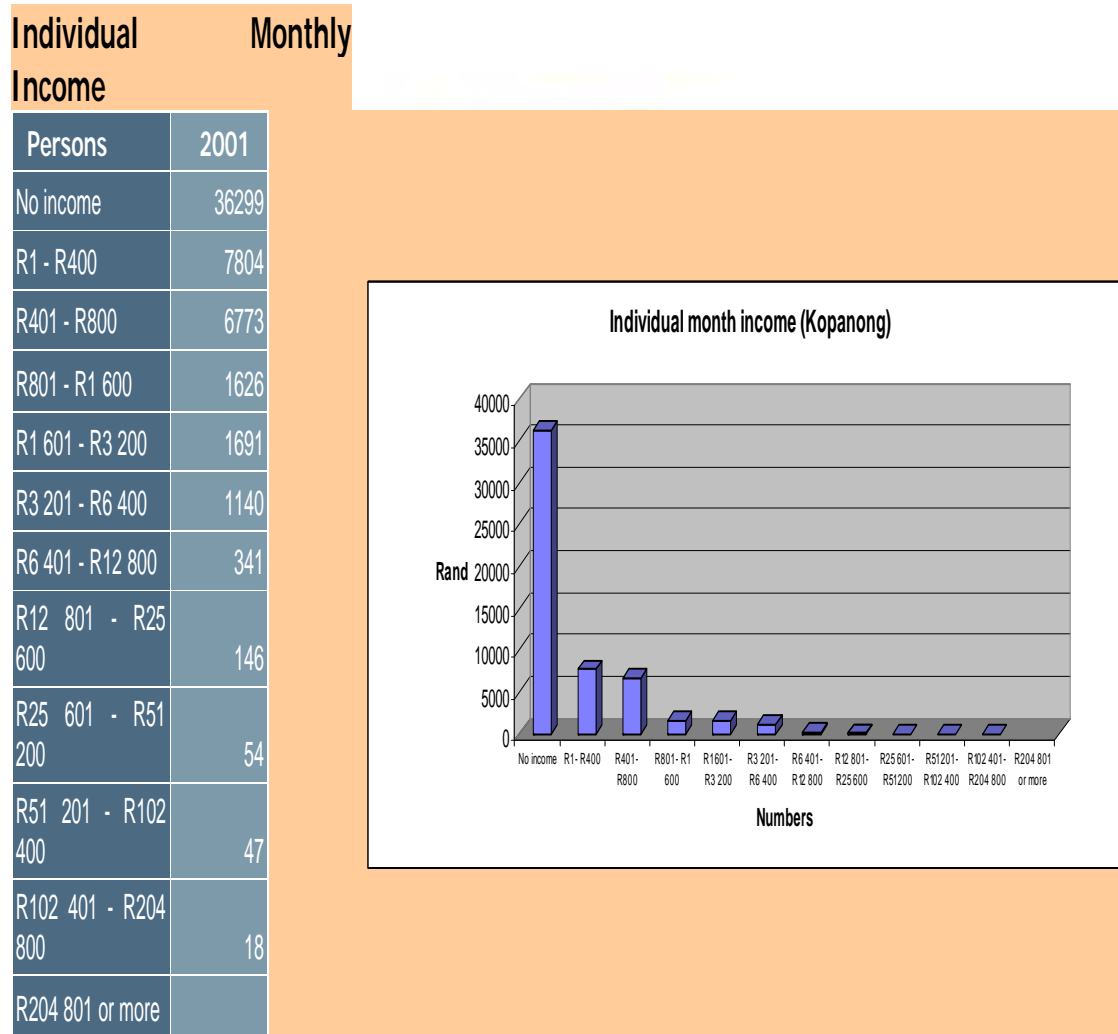


Table 1.3.3 (a) Annual income of people in Kopanong (2001)

Household Income and expenditure										
Xhariep District										
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Final consumption expenditure by households (Rand, current	531606152.6	604283549	686940996.3	758070138	839945071	959684816	1072120970	1229235313	1359856671	1523597871
Remuneration (Rand, current prices)	401387290.6	459148325	515468140.7	574016098	634440122	705849192	769247530	853593139	955148544	1057589833
Unearned income (Rand, current prices)	211212930.3	242137707	284292082.5	309683946	349215353	409133858	463553340	548375842	592946732	670837328
Current income (Rand, current prices)	612600220.8	701286032	799760223.1	883700044	983655476	1114983051	1232800870	1401968981	1548095276	1728427161
Current taxes on income and wealth (Rand, current prices)	61727111.96	72682182.4	84664209.61	95530040.4	108872684	115463055	120039220	130458277	137783539	153010489
Disposable income (Rand, current prices)	550873108.9	628603850	715096013.5	788170004	874782791	999519995	1112761651	1271510704	1410311736	1575416673
Saving by households (Rand, current prices)	19266956.24	24320301.1	28155017.22	30099866.3	34837720.1	39835179.6	40640680.4	42275390.5	50455065.1	51818801.6
Koponong Local Municipality										
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Final consumption expenditure by households (Rand, current	232791884.5	264749163	301394564.3	332439313	369397253	422084938	471650853	540636790	597840272	670655394
Remuneration (Rand, current prices)	178464676.5	204063610	229307053.9	255073722	282312210	313750282	341760105	379153387	424058925	469885470
Unearned income (Rand, current prices)	91424461.74	104862407	123315332.4	134263017	151728965	177675085	201369042	238292619	257696841	291854410
Current income (Rand, current prices)	269889138.3	308926017	352622386.3	389336738	434041175	491425367	543129147	617446006	681755767	761739880
Current taxes on income and wealth (Rand, current prices)	29339793.72	34551955.7	40303599.16	45483957	51887185.9	54995595.9	57161098.5	62126501.8	65598197.3	72923735.6
Disposable income (Rand, current prices)	240549344.5	274374062	312318787.1	343872781	382153989	436429771	485968049	555319504	616157569	688816144
Saving by households (Rand, current prices)	7757460.064	9624898.88	10924222.82	11433468.8	12756735.9	14344833.1	14317196.1	14682713.4	18317297.3	18160750

Table 1.3.3 (b) Annual income of people in Koponong, 1995-2004

What is significant from analyzing the data in Table 2.3.3 (b) is that over a ten year period of time the disposable income increased with approximately 187% and that savings increased with at least 132%. From this conclusion it is clear that a significant higher amount of money is circulated in Koponong than 10 years ago. These figures correspond with that of the District. One could furthermore assume that it will be reflected in the economic activities of the Municipal area and that higher demand for services could be expected.

1.4 Social analysis

1.4.1 Housing

“Housing” is the concurrent competency of the national and provincial governments in terms of the Constitution of the Republic of South Africa 1996. Koponong Municipality’s role and responsibilities in respect of housing in terms of section 9 of the Housing Act 1997 (Act No 107 Of 1997) is limited to planning for housing, township development and provision of bulk infrastructure, connector and internal services. However in terms of section 134 of the Local Government Ordinance 1962 (Ordinance No 8 of 1992) the Municipality may acquire, erect, construct and maintain dwelling-houses or other residential quarters and let such houses or quarters at such rentals and on such conditions as the Council may determine by resolution.

The Municipality as many other more remote Municipalities faces an enormous task to deal with the housing shortages and proper co-ordination and integration will be required to eradicate backlogs and to provide more for future growth. From the information provided, it could be suggested that there will be an increase in the housing shortage.

Dwelling type

Type	2001
House or brick structure on a separate stand or yard	14604
Traditional dwelling/hut/structure made of traditional materials	707
Flat in block of flats	69
Town/cluster/semi-detached house (simplex; duplex; triplex)	118
House/flat/room in back yard	74
Informal dwelling/shack in back yard	342
Informal dwelling/shack NOT in back yard	1353
Room/flatlet not in back yard but on shared property	137
Caravan or tent	24
Private ship/boat	9
Not applicable (living quarters is not housing unit)	164

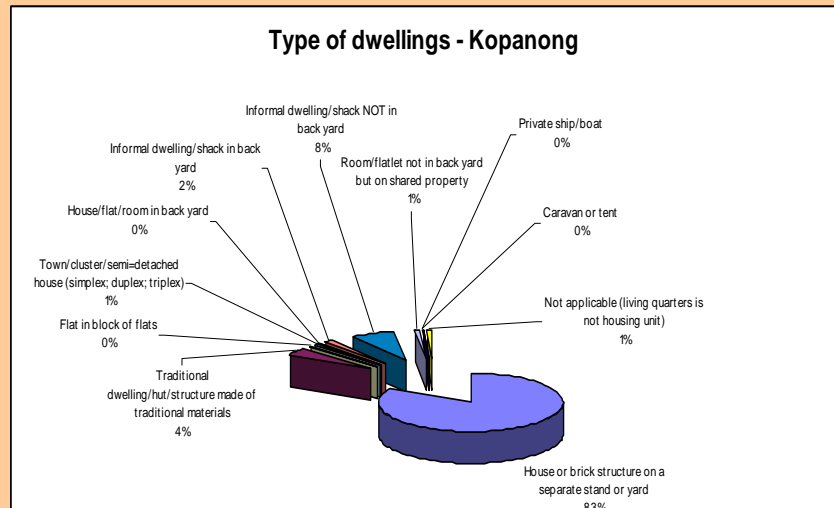


Table 1.4.1(a) Type of housing – Kopanong (2001)

Recent information on housing in the areas is not yet available and needs to be updated. However, the following official information can be shared. The Municipality estimated current housing backlogs to be 5842 units. However, recorded as the latest official statistics is 4340.

Local Municipality	Number of formal houses	Vacant residential erven	Informal housing		Total backlog in residential sites	Total current housing backlog
			Formal erven	Informal settlement		
Kopanong	9405	1738	817	3523	1785	4340

Table 1.4.1 (b): Backlog in housing and residential sites, 2005/6

1.4.2 Health Infrastructure

Health service provision is a competency of provincial government. Analysis of existing infrastructure indicate that the district is adequately served with lower level infrastructure like clinics for minor ailments compared to other similar municipalities in the province. However, some health services, like the drug depot, laboratory services and the regional hospital are still difficult to access since local households can only access these in outside regional centres like Bloemfontein.

Fixed clinics	Mobile Clinics (4 weekly range)	Vehicles	Ambulances	Commuter services	Radio-graphic services	District Hospitals (laundry, mortuary and theatre services)	Community Health Centre
10	6	11 + 8 subsidised	9	3	2 X-ray machines, 1 Radiographer, 1 Supplementary Radiographer, 1 Community Service Radiographer	Diamond hospital (Jagersfontein) – 32 beds	0

Table 1.4.2 (a): Health services available in Kopanong, 2003 Source: Department of Health (2005)

There is Home Based Care Support Groups established in all 17 towns of Xhariep. 9 out of 17 towns have established VCCT volunteer groups. Nevirapine is available in all district hospitals (Jagersfontein) and its clinics as well as clinics in Kopanong. The Health Department is intending to build new hospital in Trompsburg in 2007/2008. The hospital in Jagersfontein was upgraded during 2005.

All clinics are on a 24-hour call service. This implies that in a case of an emergency the staff on duty needs to be contacted by the patient or community to come and open the facility.

HIV / AIDS infections in the district are said to be high even though the anti-natal statistics from local clinics has not been analysed for this year's IDP, figures from last year IDP are still relevant for indicating patterns of prevalence.

These are indicated in the table below:

	Kopanong
Condom distribution	101896
HIV/AIDS test done on Antenatal Client (ANC)	253
Antenatal Client HIV positive	49
HIV test done on clients 5 years and older (Excl ANC)	473
HIV positive 5 years and older (excl ANC)	166
HIV test done on child under 5 years#	16
HIV positive under 5 years#	8

Table 1.4.2 (b): HIV/AIDS statistics for Kopanong, 2003. Source: Xhariep District Municipality HIV/AIDS Response Plan (2005)

1.4.3 Cemeteries

Cemeteries form part of authorizations for implementation by local municipalities in the district. The general management of cemeteries is a problem and in most cases there is a lack of funds to ensure effective maintenance and care of cemeteries. The high rate of HIV and AIDS is reaching alarming proportions and need to be considered in the planning for cemeteries.

Cemeteries are provided in each of the urban areas. Farming communities either utilise private cemeteries on farms or bury their loved ones in town. The following cemeteries facilities are available in the area:

Local Municipality	Number of cemeteries closed	Number of cemeteries in use	Average number of burials per month
Kopanong		23	20

Table 1.4.3: Cemeteries, 2004

1.4.4 Sports and Recreation Facilities

There are ample sport and recreation facilities in the district. However, the condition of these facilities is not always good due to a lack of maintenance and vandalism. This hampers poor communities to gain access to these services. However, unemployed youth loiter in the street and recreational facilities and programs must be implemented to direct their behavior towards active participation and to serve as a deterrent to unsociable and criminal behavior. Sport does have the potential to unite communities across cultural and racial boundaries and all inhabitants must be encouraged to participate in sport and social activities. It is therefore essential to improving on creating the necessary infrastructure and facilities in both urban and rural areas. Although effective recreation activities, such as sport support development, there is only 1 sport center in the district.

Local Municipality	Kopanong	Xhariep
Multi-function Stadium:	1	12
Soccer fields:	26	38
Rugby Field	9	16
Golf:	6	11
Athletics:	10	19
Swimming pools:	7	11
Cricket:	0	2
Hockey:	0	1
Tennis:	29	47
Netball:	14	21
Squash:	1	3
Bowls:	8	15
Badminton:	0	3
Boxing:	0	0
Karate:	0	1
Basketball:	2	3
Horse racing:	1	7

Table 1.4.4: Sport and recreation facilities , 2002.

1.4.5 Educational Analysis

A high level of illiteracy exists in the region especially in the rural areas and efforts to address this problem are hampered by a lack of facilities and unavailable resources. The lack of quality education and accessibility in rural areas is causing parents to relocate to urban areas which contribute to social problems. However the short term planning of the Department of Education is to take responsibility and control of these

schools. The transport of learners, in the rural areas is a problem, as learners are required to travel long distances by foot. There is general lack of technical and agricultural training facilities throughout the region.

Education Attendance

Level	2001
None	38663
Pre-school	1454
School	15453
College	85
Technikon	45
University	60
Adult education centre	150
Other	33

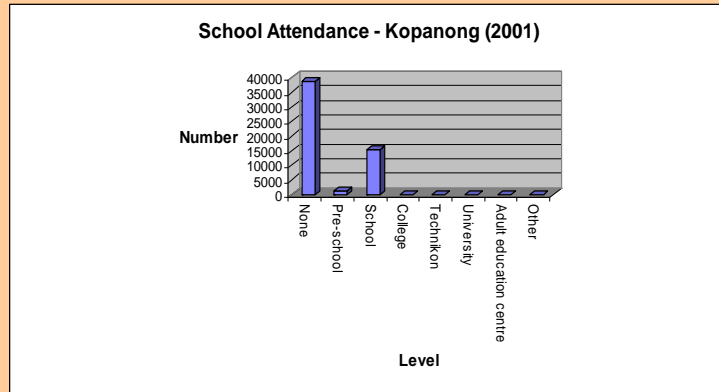


Table 1.4.5 (a) Educational Attendance – Kopanong

Educational institutions being attended by 5 to 24 year olds deliver important development needs for Kopanong.

Many schools are closing down, especially in the rural areas. The following table gives a breakdown of the school facilities in the district for 2003:

Area	Primary	Farm (Primary)	Combined	Intermediate	Secondary	Total
Kopanong	11	20	6	4	8	49

Table 1.4.5 (b): Education facilities in Kopanong, 2003

There are presently 2 independent primary schools in Kopanong. The rest of the schools listed above are all public schools. The pupil/teacher ratios differ drastically from school to school. The following table gives an overview of these ratios:

Area	Primary (1 teacher / # of children)	Farm (Primary) (1 teacher / # of children)	Combined (1 teacher / # of children)	Intermediate (1 teacher / # of children)	Secondary (1 teacher / # of children)
Kopanong	30.6	16.7	32.4	26.7	27.8

Table 1.4.5 ©: Educator / Pupil ratio in public and farm schools, 2003. Source: Department of Education (2005)

It is evident from the above that in most cases a ratio of less than 35 learners per teacher is achieved throughout the Kopanong.

Area	Primary	Farm (Primary)	Combined	Intermediate	Secondary
Kopanong	4227	434	2491	1257	3278

Table 1.4.5 (d): Total number of learners enrolled at public and private schools, 2003. Source: Department of Education (2005)

Educational Levels

From the information provided in the next table it is clear that there is still too many people without schooling, Education and skills development is high on the priorities of development issues in South Africa. Although not the core competency of Kopanong Local Municipality, education needs to be availed to as many as possible of its residence.

School Level	Number
No schooling	9004
Grade 1/sub A (completed or in process)	2906
Grade 2/sub B	2073
Grade 3/standard 1	2989
Grade 4/standard 2	3411
Grade 5/standard 3	3638
Grade 6/standard 4	3896
Grade 7/standard 5	4254
Grade 8/standard 6/form 1	4955
Grade 9/standard 7/form 2	2534
Grade 10/standard 8/form 3/NTC I	3086
Grade 11/standard 9/form 4/NTC II	1952
Grade 12/standard 10/form 5/matric./NTC III	4449
Certificate with less than grade 12	84
Diploma with less than grade 12	30
Certificate with grade 12	293
Diploma with grade 12	712
Bachelor's degree	233
Bachelor's degree and diploma	153
Honour's degree	64
Higher degree (master's or doctorate)	57
Not applicable	5167

Table 1.4.5 (e) Educational levels – Kopanong

In most of the towns in the Municipality there are early childhood development centres established. The Department of Social Development finances some of these. However, it was recorded that the standard of education conducted at these centres are not always of high quality due to a lack of resources and proper regulation.

1.4.6 Disability profile

The % of disabled people is relatively low, but the level of support for the disabled is high compare to the average needs of people without disabilities.

Disability

Type	2001
No disability	50848
Sight	1335
Hearing	629
Communication	117
Physical	1102
Intellectual	447
Emotional	696
Multiple	769

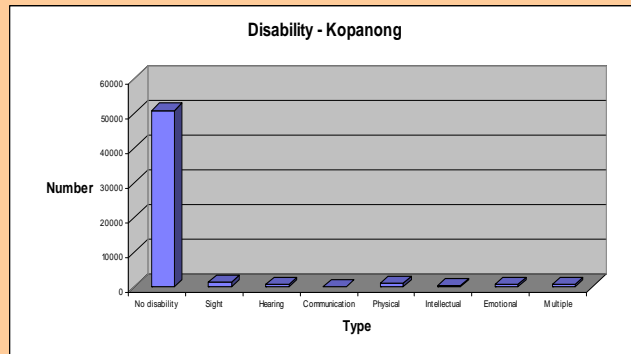


Table 1.4.6 Disability - Kopanong

1.5 Infrastructure analysis

The provision of infrastructure, development and growth is essential to assist towards accelerated growth investment initiative led nationally by the Deputy President's office (ASGISA). In cases where provincial departments and local municipalities play a leading role as their core functional area, the district municipality must ensure that they play a supporting

1.5.1 Water

The level of water supply according to the latest available statistics is reflected below. . Access to potable water in 2001 was:

Water Supply

Type	2001
No access to piped water	444
Piped water inside dwelling	4269
Piped water inside yard	10655
piped water on community stand: distance less than 200m from dwelling	1152
piped water on community stand: distance greater than 200m from dwelling	1114
Regional/local scheme	13567
Borehole	3302
Spring	38
Rain-water tank	293
Dam/pool/stagnant water	229
River/stream	54
Water vendor	94
Other	56

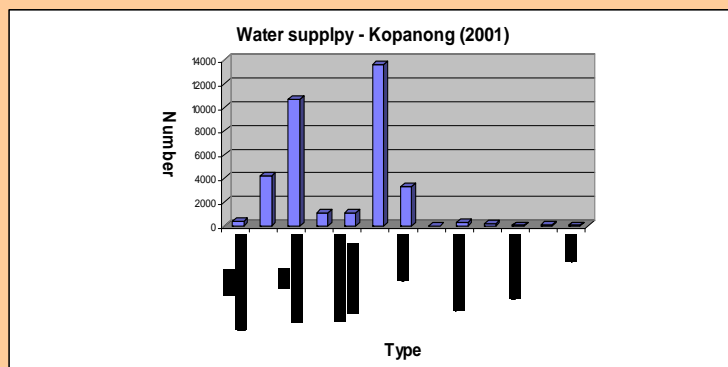


Table 1.5.1(a) Water supply (2001)

1.5.2 Sanitation

The eradication of the bucket system is still the main prevalent method of sanitation in the district only third to waterborne system as reflected from Table 2.5.2 (a) below. It is system that government continuously pushes to eradicate as it is unhygienic and thus causes diseases. Vigorous efforts must be employed to ensure that it is not one of the methods used. It must also be ensured that all other forms of sanitation systems are according to the required Departments of Water Affairs and Forestry and Health standards.

In general the bulk sanitation infrastructure in more urban areas are either insufficient for any future expansion or is close to reaching its full potential in the near future. Before any major internal sanitation upgrading can be considered, the bulk infrastructure will need to be upgraded to accommodate such expansions.

These levels of sanitation services of the local municipalities as well as the plans are depicted in the table below:

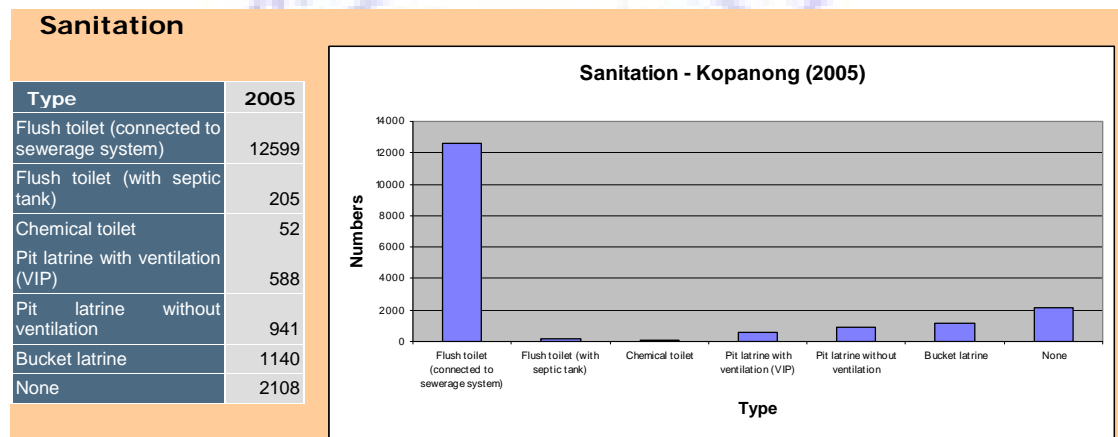


Table 1.5.2 (a) Sanitation levels in Kopanong

1.5.3 Electricity /Energy source

The bulk electrical network is well established specifically around Xhariep area. Eskom serves all towns in the Municipal areas and thus there is sufficient bulk infrastructure available to serve the whole area.

However a change in cost recovery and their subsidization policy has made it very expensive to electrify the rural areas and these include farms and farming communities who need such basic power support.

Source of Energy for Lighting

Households	2001
Electricity	14381
Gas	18
Paraffin	777
Candles	2287
Solar	100
Other	40

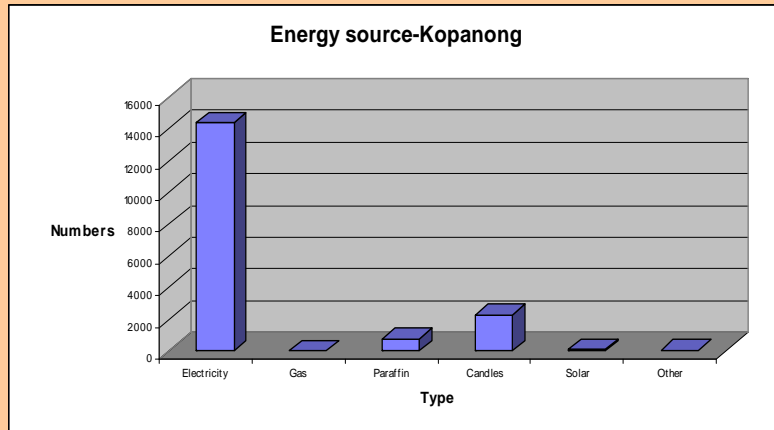


Table 1.5 3(a) Energy source - Kopanong

Although the electricity supply has improved in 5-years time, the number of people using candles is still alarmingly high.

1.5.4 Refuse Removal

Most towns experience problems with the management of their waste disposal sites and to meet the requirements of the Department of Water Affairs. A plan to establish a regional framework for effective waste disposal is required including the possibility of regional dumping sites and how to deal with toxic waste. The own dump of refuse could be investigated to introduce alternative methods.

Refuse

Method	2001
Removed by local authority at least once a week	12241
Removed by local authority less often	752
Communal refuse dump	57
Own refuse dump	3752
No rubbish disposal	800

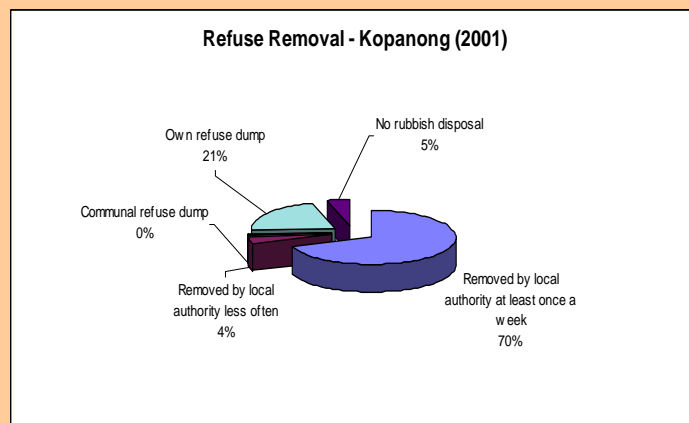


Table 1.5.4 (a) Refuse removal

The more urban areas are serviced, with refuse removal on a weekly basis. However, the effective and co-ordinated functioning of this service will have to be addressed.

Local Municipality	Number of waste sites	Number without permit	Number of sites with sufficient capacity	Frequency of waste collection service
Kopanong	11	10	8	Once per week

Table 1.5.4 (b): Waste removal services, 2004

1.5.5 Roads

The road network in the region needs to be maintained. The road condition is deteriorating at a rapid pace and very little maintenance is done due to a lack of funding. It is very important to maintain and upgrade all main routes in order to continue the flow of traffic throughout the area. An emerging fact is that since the drive to curb the overloading of vehicles, secondary roads are more frequented by overloaded trucks to avoid demarcated truck routes. These secondary roads are not designed to carry these weights and are thus being damaged within a short space of time.

There is a railway line in the Kopanong vicinity. Continued maintenance of tertiary roads is important as it forms the lifeline for the rural community, health, emergency and educational services. In the more urban areas the main problem is the condition of the streets and storm water drainage in the townships. In most of the townships, streets are in poor conditions with very little water drainage system. This is not only a problem to the local inhabitants but also complicates effective service delivery, policing, emergency services, public transportation, economic development and accessibility in general. Due to high cost of road construction this problem also has to be resolved in a systematic, integrated and sustainable way.

1.5.6 Transport

The transportation in almost all districts is still insufficient.

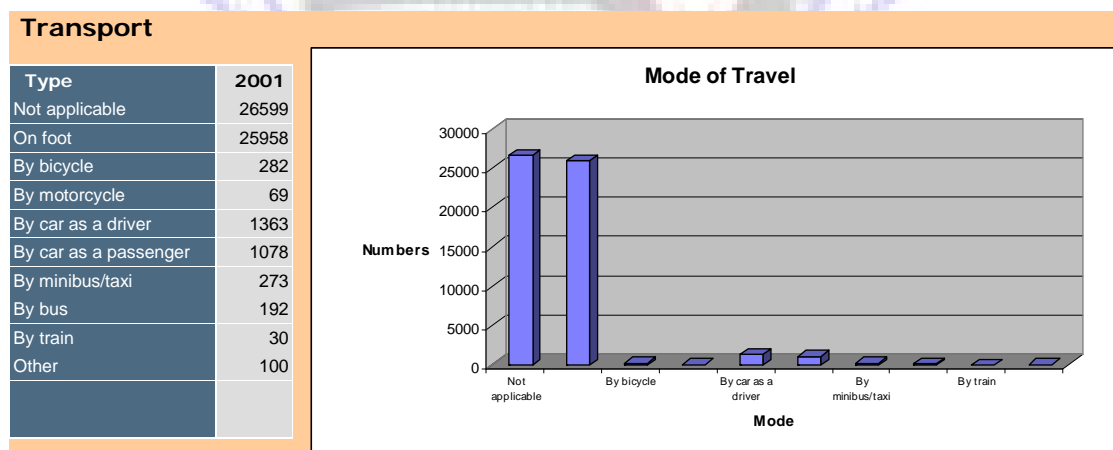


Table 1.5.6 – Mode of travel , Kopanong

1.5.7 Telecommunications – Access to landlines (telephones)

Two types of telecommunication systems exist in the areas: **TELKOM System** –Their policy of cost effective services however means that farming communities that do not use the phone adequately cannot have access. Thus the use of Telkom phones is

denied to these communities in emergency situations. Telkom infrastructure is prone to theft and thus the cost of providing such a service increases. However, continued use of such a service dictates continued accessibility and enjoyment of the same service.

Cell Phone System – private companies such as **Vodacom, Cell C, MTN** and lately **B-Tel** do provide enough coverage of the whole area.

Access to telecommunication facilities increased rapidly over the past five years. The conclusion is also drawn that the contribution of access to cellular phones is dependant on higher household income.

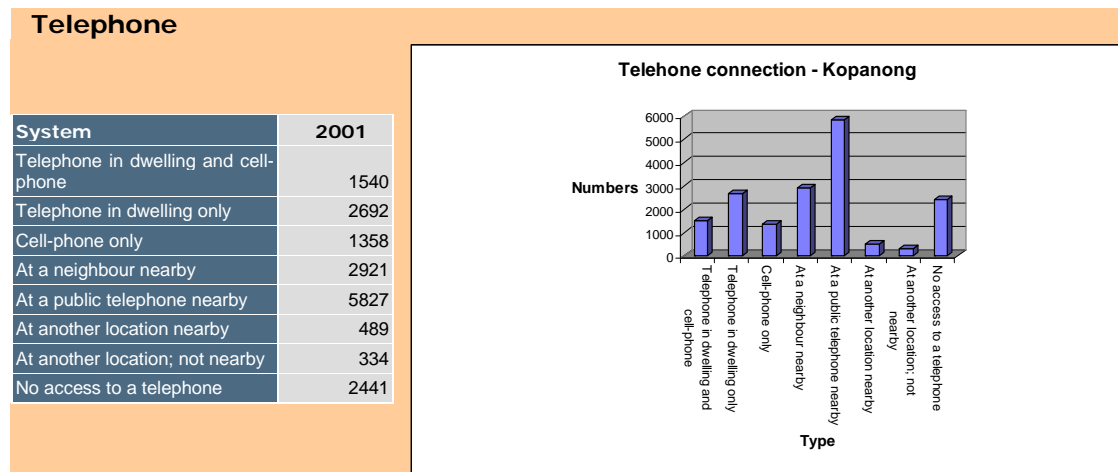


Table 1.5.7 Access to telephones - Kopanong

1.6 Safety and Security

As would be expected in smaller towns, the general crime rate is lower than other urban nodes in the province. However certain crimes are more prevalent and are on the increase. Within urban areas these particularly include crime associated with alcohol abuse, such as vandalism, assault etc. Within the rural areas stock theft is constantly increasing and personal attacks on farms are also emerging.

The current level of crime is of concern and is not bound to a specific area or person. There is also an increase in the number of housebreaking and violence against women and children, who are the most vulnerable, is unacceptably high, some contributing factors are as follows:

- High unemployment rate and migration from rural to urban areas.
- Lack of resources within the police service (transport, manpower).
- Ineffective functioning of neighbourhood watch organization and community police forums.
- Lack of visible policing.
- Lack of accessibility to police stations.

More facilities such as mobile police stations, available transport and accessible communication systems are required to improve crime prevention and emergency response.

1.6.1 Crime

It needs to be mentioned that specific statistics available for Kopanong could be used to track the trend of crime in the areas. The type of crimes imposing on the safety of the people of the district is as follows:

	Murder	Rape	Attempted murder	Assault with intent to inflict grievous bodily harm	Common assault	Robbery with aggravating circumstances	Common robbery	Indecent assault	Kidnapping	Abduction	Neglect and ill-treatment of children
Kopanong FS 162											
Bethulie	5	20	1	85	201	2	8	4	0	0	2
Edenburg	3	13	0	88	124	1	3	2	0	1	2
Fauresmith	2	4	0	39	50	0	3	0	0	0	1
Gariepdam	0	4	2	12	19	0	1	0	0	1	0
Jagersfontein	2	13	4	66	121	4	7	2	0	0	3
Phillipolis	1	9	0	59	59	0	7	2	0	1	1
Reddersburg	4	20	0	83	105	3	14	5	0	1	2
Springfontein	2	6	2	49	64	1	3	1	0	1	6
Trompsburg	15	48	18	214	218	35	45	7	2	4	5
	Culpable homicide	Public violence	Carjacking (Sub Category of Robbery Aggravating)	Truck hijacking (Sub Category of Robbery Aggravating)	Bank robbery (Sub Category of Robbery Aggravating)	Robbery of cash in transit (Sub Category of Robbery Aggravating)	House robbery (Sub Category of Robbery Aggravating)	Business robbery (Sub Category of Robbery Aggravating)	Arson	Malicious damage to property	Crimes inure
Bethulie	2	0	0	0	0	0	0	0	0	35	66
Edenburg	4	0	0	0	0	0	0	0	1	19	26
Fauresmith	1	0	0	0	0	0	0	0	1	14	25
Gariepdam	1	0	0	0	0	0	0	0	0	8	10
Jagersfontein	3	0	0	0	0	0	0	0	0	28	37
Phillipolis	2	0	0	0	0	0	0	0	2	15	39
Reddersburg	3	0	0	0	0	0	0	0	1	34	64
Springfontein	4	0	0	0	0	0	0	0	1	20	30
Trompsburg	1	0	1	0	0	0	1	2	6	89	47
	Burglary at residential premises	Burglary at business premises	Theft of motor vehicle and motorcycle	Theft out of or from vehicle	Stock theft	Illegal possession of firearm and ammunition	Drug related crime	Driving under the influence of alcohol or drug	All theft not mentioned elsewhere	Commercial Crime	Shoplifting
Bethulie	69	50	1	8	44	1	26	2	97	2	11
Edenburg	44	13	0	9	53	1	1	1	50	3	1
Fauresmith	26	9	1	4	30	0	6	8	31	0	10
Gariepdam	11	2	6	2	4	0	4	0	26	4	2
Jagersfontein	34	8	2	6	8	1	6	4	57	2	11
Phillipolis	18	7	0	4	22	0	0	4	42	1	1
Reddersburg	40	4	1	9	57	4	3	4	65	1	1
Springfontein	18	5	0	1	27	0	1	2	32	1	0
Trompsburg	159	3	17	26	0	4	28	2	129	2	0

Table 1.6.1 Crime statistics – Kopanong

1.6.2 Disaster

There is no disaster management center in the Municipality. The challenges recorded in the FSGDS include:

- The transfer of fire fighting services to the district municipality
- Establishment of fire protection areas
- Establishment of fire fighting services
- Procurement of fire fighting equipment
- Recruitment and training of personnel

Municipality	Disaster Management centre	Fire fighting services	EMS	Provincial roads and traffic inspectorate	Local roads and inspectorate	SAPS	South African National Defence Force (DSANDF)	Hazardous materials Spillage cleaning companies
Kopanong		X	X	X		X		

Table 1.6.2 Disaster infrastructure, Kopanong

1.7 Institutional in-depth analysis

Priority issues based on a summary report on in-depth analysis undertaken by Kopanong revealed interesting facts.

The regional analysis of Kopanong directly informs the Integrated Development Plan (IDP) for the next five years, 2007-2012. Information acquired from available data in terms of growth, trends, and development potential support decision makers to plan efficiently. Additionally, development goals set by Government, Provincial development strategies such as the FSGDS 2006-2014 direct local development. The National Spatial Development Perspective (NSDP) reveals crucial information in terms of the development potential of Kopanong. Ultimately, engagement with the people of Kopanong through public participation attempts will assist the Municipality to prioritize development issues in Kopanong. These issues include infrastructure and services, housing and land availability, local economic development and tourism, education and skills development, sports and recreation and finally the safety and security of the people of Kopanong.

All intervention and development initiatives and plans are intended to stimulate growth, create an environment conducive to economic growth and to improve the lives of the people of Kopanong.

Population growth and migration

No migration of people is expected towards Kopanong. An influx of people to Kopanong is not predicted.

Gender

Based on the outcomes of the gender analysis there must be effort made to ensure that women developmental activities are prioritized. These activities should include opportunities in formal employment capitalizing on national policy provisions such as broad based black empowerment initiatives, Equal Employment Act and employers being gender sensitive in their quest to bring parity of gender in their employment strategies.

Age

The age distribution of the population of Kopanong the following interventions in the area:

- A need for quite a number of primary schools, sports and recreation facilities for children
- In particular, the age group 5-14 have a higher % population in the combined categories of 0-4. Age groups 15-64 should be assessed especially when it comes to employment creation, employment opportunities in the district, and a number of training institutions around and/or in the nearby municipalities.
- The Municipality must be prepared to equip the youth to be competitive in case they decide to migrate to other areas in order to find employment
- For the aged, thought must be given to existing infrastructure meant for their livelihood like old age homes as well as the existing family support structures for their safe keep in their times of need.

Economy – GDP

“Government Services” is the biggest contributor to GDP in Kopanong, followed by agriculture. The smallest contributor to GDP is construction, followed by mining and manufacturing.

One can assume that the latter (construction) will increase within the next year or three due to the current construction initiatives in the area. This picture could change drastically with influx of people to facilities and employment opportunities resulting from amongst others the hospital-under-construction in Trompsburg.

What is however more significant is the major growth in wholesale and retail trade from 1995 to 2005.

Employment and sector contributions

Approximately 40.2% people in Kopanong still lives in poverty. An alarming high % of the population of Kopanong reflects no income and therefore poor. The demand for social service intervention is high. This figure enforces a high demand for job opportunity creation.

It is apparent that the economy of the region is dominated by **agriculture** followed by community services.

- “**Agriculture**” reflects a consistent employment rate with limited growth from 1995 to 2005.
- A decline of employment in the **construction** industry is visible for both the District and the Municipality. However, with the current building activities in Trompsburg (including a hospital) one can assume that for at least the next two to three years this figure could increase drastically.
- The “**Electricity and water**” sector reflects low potential for employment opportunities in Kopanong. However, with the current need for electricity interventions one can expect that this scenario might change in due course.
- Over a ten year period of time the **Finance and Business Services** sector has shown a growth of 100% for the District and at least 65% for Kopanong. Although still minute in numbers, this sector promises more employment opportunities in future.
- The **mining and manufacturing** sector is insignificant.
- The employment opportunities in the **transport and communication** sector gradual decline over a ten year period in both the District and Municipality is visible.

- An increase of at least 32% over ten years in employment in the **wholesale and retail, catering and accommodation** sector is recorded. With greater emphasis on tourism, this figure might increase in future.

Housing backlog

The Municipality estimated current housing backlogs to be 5842 units. However, recorded as the latest official statistics, is 4340. The highest need is recorded for Bethulie, followed by Phillopolis, Edenburg and Trompsburg.

Health infrastructure

The district is adequately served with lower level infrastructure like clinics for minor ailments compared to other similar municipalities in the province. However, some health services, like the drug depot, laboratory services and the regional hospital are still difficult to access since local households can only access these in outside regional centres like Bloemfontein.

Sports and recreation facilities

There are ample sport and recreation facilities in the district. However, the condition of these facilities is not always good due to a lack of maintenance and vandalism.

Education

A high level of illiteracy exists in the region especially in the rural areas. Efforts to address this problem are hampered by a lack of facilities and unavailable resources.

- The lack of quality education and accessibility in rural areas is causing parents to relocate to urban areas which contribute to social problems. (The Department of Education is taking responsibility and control of these schools).
- The transport of learners, in the rural areas is a problem, as learners are required to travel long distances by foot.
- A lack of technical and agricultural training facilities throughout the region is experienced.

Water

2,995 urban households do not have on-site water. A backlog of 1674 households is recorded for Kopanonong. The highest need is in Trompsburg, followed by Bethulie and Phillopolis.

Sanitation

A backlog of 1674 households is recorded, the highest figure for Fauresmith, followed by Phillopolis.

Electricity

The bulk electricity network is well established although an alarmingly high number of people still use candles.

Roads and transportation

Transportation in the Municipal area is insufficient.

Safety and security

Common assault, burglary and theft are recorded as the main causes of crime in the area.



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 plethora 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 into one, except for the following few challenges:

Asset Register

An asset register had now been compiled and forms part of the financial system. The biggest challenge is to ensure that the register is fully GRAP compliant and a large amount of work still needs to be done on the infrastructure assets.

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 waiting for SALGA to complete the process where after the municipality will start with the process of allocating the different posts to the relevant salary levels and submit the report too Council for approval. The Council approved that the disparity between employees on the same post levels be addressed as and when the cash flow allows the payments.

Institutional Transformation

The municipality had succeeded into reviewing the IDP successful with the help of consultants. The PMS system had been fully reviewed and will be implemented in the 2011/12 financial year.

The municipality's budget has been changed to ensure that it is in the new format as prescribed by the MFMA.

Key Challenges Facing the Municipality

Kopanong Local Municipality's economy is very weak with only agricultural activities as its main economic activities. 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.

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



TX Matwa
Mayor – Chairperson Executive Committee

Councilor HM Hagemann
Executive Committee Member

Councilor KE Dhlomo
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 Management and the Executive Committee in order 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> <table border="0"> <tr> <td>African National Congress (ANC)</td> <td>10</td> </tr> <tr> <td>Democratic Alliance (DA)</td> <td>3</td> </tr> <tr> <td>Congress of the People (COPE)</td> <td>1</td> </tr> </table> <p>Councilor Details:</p> <table border="0"> <tr> <td>Total number of Councilors</td> <td>14</td> </tr> <tr> <td>Number of Councilors on Executive Committee</td> <td>3</td> </tr> </table> <p>Ward Details:</p> <table border="0"> <tr> <td>Total number of Wards</td> <td>7</td> </tr> </table> <p>Type of Council and Committee Meetings</p> <ul style="list-style-type: none"> Executive Committee meetings Financial Committee meetings Institutional Transformation Committee meetings Infrastructure, Technical & Community Committee meetings Ordinary Council meetings Special Council meetings 	African National Congress (ANC)	10	Democratic Alliance (DA)	3	Congress of the People (COPE)	1	Total number of Councilors	14	Number of Councilors on Executive Committee	3	Total number of Wards	7
African National Congress (ANC)	10												
Democratic Alliance (DA)	3												
Congress of the People (COPE)	1												
Total number of Councilors	14												
Number of Councilors on Executive Committee	3												
Total number of Wards	7												

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.



LY Moletsane Municipal Manager



MJ Monnaruri
Director: Finance



CK Manzana
Director: Corporate



PM Makau
Director: Community



KP Sebusi
Director: Technical

OFFICE OF THE MUNICIPAL MANAGER

MUNICIPAL MANAGER

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



LY Moletsane - Municipal Manager

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

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 5 year Integrated Development Plan was successfully developed for the years 2007 – 2012. However it needs to be pointed out that owing to the financial position of the Council almost 95% was largely financed from external sources. Despite that fact, some programs as identified in the IDP for this year were successfully completed. The IDP was also reviewed during the 2010/11 financial year.

Performance Management System

The Municipal Systems Act of 2000 requires municipalities to measure its performance by formulating a Performance Management System. The 2010/11 financial year's results had been measured and the results are part of this report.

Municipal Transformation and Organizational Development

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

Local Economic Development

As earlier indicated in the report the Kopanong Local Municipality's economy is relying on agricultural activity and the Municipality had to focus on this. The LED unit was established in the prior financial year with a LED Officer and Strategic Executive Manager. The LED strategy was developed and approved by Council in July 2008, with an implementation plan. The Municipality also developed a Tourism Strategy.

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

Financial Viability

The Creditors stands at R 30.4 million currently. The Municipality has arrangements with the following institutions: Bloem Water; SALA Fund; SAMWU Provident Fund and the Office of the Auditor-General and could not keep to all the arrangements. Effective governance was also approved by compiling and implementing important policies. Examples of policies implemented during the prior financial year are the Indigent Policy which includes free basic services, Procurement Policy, Credit Control Policy and Tariff Policy. These policies are reviewed annually during the budget process.

Challenges

The municipality still faces the following challenges in the Office 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.

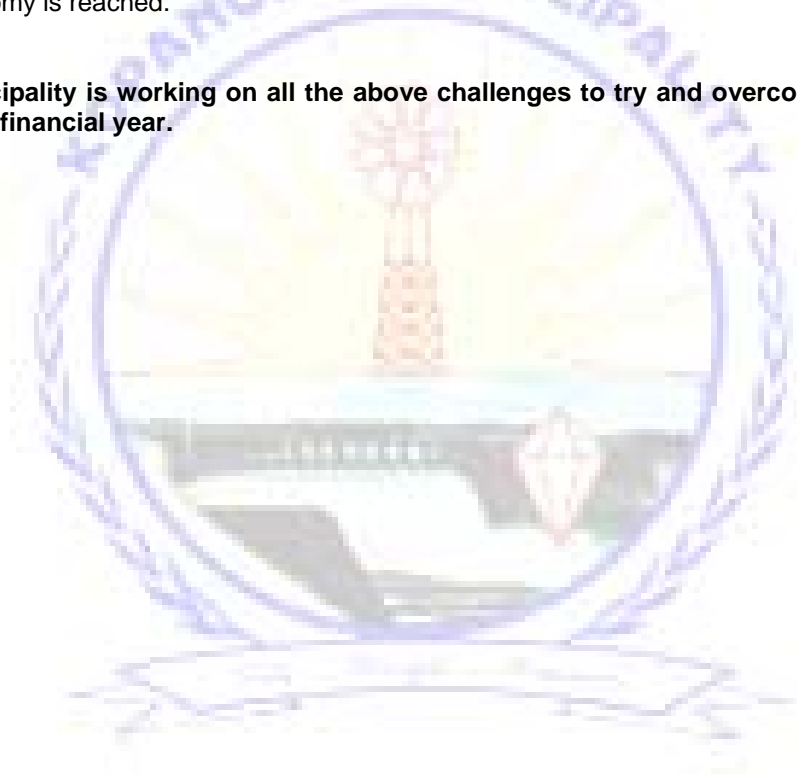
Performance Management System

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 2010/2011 financial year.



CORPORATE SERVICES



CK Manzana - Director Corporate Service

	The Department of Corporate Services comprise of the following divisions.	
HUMAN RESOURCES Personnel and Organisational development		ADMINISTRTION Auxilliary services Adminstrative and Council Support
FOCUS		
<ul style="list-style-type: none"> The effective management of human resources in order to ensure the transformation of skills development, employment equity and performance appraisal. Provision of strategic human resources support to all Council business functions, people development and to ensure the maintenance of sound labour relations. 	<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:

The department has implemented a number of systems and program in an endeavor to increase effectiveness in the administration, of which amongst others are the following:

1. ADMINISTRATION, LABOUR RELATIONS AND HUMAN RESOURCE

The committee section is now in place to ensure that the personnel responsible are able to produce quality reports for Council and Committee meetings.

The labour relations unit as reflected in the organizational structure has also been established so as to promote sound labour relations. All the disputes that were declared and concluded through the South African Local Government Bargaining Council (SALGBC) were in favor of the municipality. The case against the 79 personnel members that were dismissed had been solved in the High Court and the final payment to these employees will be done in July 2010. The unit has also developed a program to capacitate all staff members in the municipality around the collective agreements and policies.

All training programs are in line with the Skills Development Plan as approved by the Council.

2. INTERGRATED HEALTH AND SAFETY SYSTEM

This program entails employee wellness and Occupation health and safety. It is a practical way of demonstrating that the municipality has an interest in the health and general well-being of its employees.

The Occupational Health and Safety Committee were established in line with the Act and its meetings are held regularly. All efforts have been made, under the limited budget, to ensure that the committee attended some relevant training so as to enable them to execute their tasks in an efficient and effective manner.

3. CHALLENGES

- In implementing our human resource policy we have identified that most areas have not been covered, as a result it needs to be reviewed so that we develop a more comprehensive policy.
- The municipality inherited employees from the former Transitional Local Councils. Some of these employees were not members of either the pension or provident fund and therefore, on retirement the municipality is obliged to pay them what they would have been paid by the fund if they were members.
- Full implementation of the Employment Equity Plan
- Implementation of the Occupational Health and Safety policy vs negative cash flow
- Lack of capacity by members of the Occupational Health and Safety Committee.
- Insufficient funds in the budget for training programs

TECHNICAL SERVICES



KP Sebusi - Director Technical Services

	<p>The Technical Department comprises of the following divisions:</p> <ul style="list-style-type: none"> Project Management Vehicles and Equipment Maintenance Stores Housing Matters 	
<p>FOCUS</p>	<p>CORE BUSINESS</p> <ul style="list-style-type: none"> Management of all Capital projects Maintenance of all vehicles and Equipment Management of all Housing matters 	

THE YEAR UNDER REVIEW:

Service Delivery: Technical Department

Kopanong Local Municipality completed the following projects during the financial year. The MIG allocation was R 16 122 000 and below is the budgeted amounts of the projects completed in the financial year.

ACCESS ROADS

• Bethulie Access Road:	R 2 590 805
• Trompsburg Access Road:	R 2 672 552
• Reddersburg Access Road	R 6 966 201
• Springfontein Access Road	R 960 805
• Philipollis Oxidation Ponds	R 557 860
• Jagersfontein Treatment Plant	R 1 567 529

Bulk Water Supply Project

The Municipality received R 19 140 764 from DWAF for the following projects:

Jagersfontein/Fauresmith Regional Water Supply Scheme: R 19 140 764

This project is currently in progress.

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



MP Makau - Director Community Services

	<p>The Community Department comprises of the following divisions:</p> <ul style="list-style-type: none"> Water Sanitation Landfill Sites Parks Cemeteries Refuse Removal 	
<p>FOCUS</p>	<p>CORE BUSINESS</p> <ul style="list-style-type: none"> Water – Operation of internal reticulation. Sanitation – Provision of sanitation Landfill Sites – Management of landfill sites Parks – Maintenance of all the parks Cemeteries – Management of cemeteries and maintenance. Refuse Removal – Operation of a refuse removal system. Electricity – Centlec 	

Annual Report for Community Services

Overview

The departmental mandate is to provide accessible and quality services to all communities of Kopanong Municipality. Currently the department has taken strategic decision concerning the optimal service delivery for the provision of services in its area of jurisdiction.

Administration of units

Kopanong Municipality consists of nine units which are administered by Unit Managers who report to Community Services Managers who in turn reports to the Director Community Services .The communication to the units has improved drastically and regarding service delivery our units are faced with shortage of equipments for maintenance and machinery. Lack of proper maintenance as well as ageing infrastructure and vehicles are playing a key role in hampering effective service delivery.

ROADS AND STORM WATER

The roads in Kopanong are in a bad condition due to the fact that most of them have exceeded their lifespan and others due to poor maintenance. .All the internal streets within the towns needs to be bladed and regarded and this process is in our plan for this year. The other challenge is the tarred roads which are full of potholes making them not accessible also in this regard we have conducted an audit which has been followed by quotations from service providers for the supply of Premix tar for the filling of the potholes.

Things to be done

- To provide training of staff for resealing of the roads.
- To provide training for the maintenance of the roads infrastructure.
- The development of the infrastructure maintenance plan for the Municipality

Parks and Cemeteries

We have no sufficient staff to clean the cemeteries. The only solution is to have a ward based project to clean cemeteries and for job creation. It is also raised by community as a discontent to clean cemeteries and have ablution facilities.

In the budget of 2010/11, a provision has been made for the fencing and construction of ablution facilities of our cemeteries and therefore this will be done in different phases considering the cash flow. We need to engage service providers for the application of new cemeteries as in most of the units these are almost full.

Refuse Removal

With little resources that we have at our disposal the personnel is doing well and we collect refuse continuously in all areas. Our landfill sites are not registered we have also engaged the Tourism and environmental department.

The landfill sites need to be registered and rehabilitated, to ensure proper management of these facilities.

Things to do by December 2011

- Development of the Intergraded Waste Management Plan
- The registration and rehabilitation of all Land fill sites.
- The development of Municipal By-Laws
- Conduct road shows about littering and illegal dumping of waste

Water Services

There are monthly water samples that are taken from all the units by our Service provider (Bloem-Water) and sent to Laboratory for testing for bacteria as well as determine the quality of drinking water. Within this year no major problems regarding quality water occurred except the dwindling levels of water in the mine shaft resulting in the scarcity of water. The current Bulk Water Supply project is intended to address these problems and the first and second phases are due for completion by July 2011.

The ageing water infrastructure is causing problem of pipe bursting especially in winter and this problem is found in almost all our units.

Things to do next financial year

- Training of employees in maintenance of water network.
- Employ qualified plumbers
- Purchasing of water meters for newly developed sites.

Library Services

The Department of Sports Arts and Culture entered into an agreement with municipality to equip libraries with IT and provide training for all staff in libraries. The Municipality has employed a library coordinator whose main task is to supervise all the library in conjunction with the Department of Sports, Arts and Culture.

Sports and Recreational

The Caleb Motshabi Stadium in Trompsburg is currently under the control of Kopanong Municipality with the major challenge being the maintenance of this facility especially the greening of the pitch. Realising that our finances are not sufficient enough we have prioritized most of the sports facilities under MIG Grant.

Conclusion

The Department; Community Services is faced with a huge challenge of rendering quality services to the communities and the constraints are lack of finances, sufficient equipment as well as capacity in terms of proper maintenance by municipality employees in critical sections like water, sanitation and roads.



FINANCE SERVICES



MJ Monnaruri – Director Finance

	<p>The Financial Department comprises out of the following divisions:</p> <ul style="list-style-type: none"> Income Expenditure Budget Office Credit Control IT Asset Management Risk Management 	
<p>FOCUS</p>	<p>To ensure efficient and effective financial management.</p> <ul style="list-style-type: none"> Management of assets & liabilities. Management of revenue & expenditure Management of the budget Performance of the Treasury Function Maintenance of internal financial control Management of Financial Administration Risk Management Financial advise to Council, Accounting Officer & Management Consumer Relations Manage & Lead the Financial Directorate IT Management & Development 	

THE YEAR UNDER REVIEW:

Capacitating of Financial Personnel

All the finance personnel attended courses on the financial system and were therefore capacitated in operating the new financial system. They also attend new courses as and when available.

Finance personnel are also attending external courses where applicable. All senior and middle managers in the Finance Section have already completed or are nearly finished obtaining the required qualifications of the new competency levels.

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 within the required deadlines.

Five Interns were 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 6 259. The free services are as follows:

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

IMPLEMENTATION OF GRAP

The Municipality appointed new consultants to implement the conversion from IMFO to GRAP to solve all the problems of the previous consultants.

Challenges

The biggest challenges for the department are as follows:

The role out of free basic electricity is still not 100% and the department and the Municipal Manager are in constant contact with the two suppliers of electricity in the area.

Although the payment rate had increased to an average of 80% of the budgeted levies it is still low and the municipality had increased its debt collection by in-house legal collections. Another problem is that the municipality cannot block electricity purchases of defaulters of other services anymore as a significant portion of the community makes use of prepaid electricity. The area is also very poor and has a very limited tax base.

The problems experienced during the audit regarding the implementation of GRAP must be addressed.



The logo of Koranong Municipality is a circular emblem. The outer ring contains the text "KORANONG MUNICIPALITY" in blue capital letters. Inside the circle, there is a central figure of a person standing on a platform, possibly a religious or historical figure, with a sunburst behind their head. Below the figure is a landscape with a body of water and a bridge. The entire emblem is set against a light yellow background.

Audited Financial Statements 2010/11

CHAPTER 7

KOPANONG LOCAL MUNICIPALITY: Annual Financial Statements

Report on the outstanding debtors as on 30 June 2011 by the Accounting Officer

The total outstanding debt as on the 30th of June 2011 amounts to R 92 538 254.

Note	Gross	Provision	Net
3	51 542 435	51 154 642	387 793
4	7 720 170	1 356	7 718 814
5	33 275 649	9 873 401	23 402 248
Total	92 538 254	61 029 399	31 508 855

A detail age analysis was not available on all debtors and therefore a breakdown of the aging of debtors can't be provided.

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 off any outstanding debt unless all means of collection has failed.

The municipality also stopped to block the purchase of electricity in cases where consumers are in arrears for other services as it is against the Electrification Regulations issued by the NER. This resulted that the municipality had to resort to legal action where the normal credit control did not have any effect. This is done in-house.

On 30th June 2011 the accumulated Bad Debt Reserve of the municipality amounted to R 61 029 399 and the % of outstanding debt covered by the Bad Debt provision is 65.95%.

It is therefore the municipality's opinion that without detailed information on the debtor's book that at least 65.95% of the outstanding debt are not collectable and will be written off as and when information is obtained from the in-house legal process. 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.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

General Information

Legal form of entity	"Local Municipality" as defined by the Municipal Structures Act
Nature of business and principal activities	Providing municipal services as set out in the Constitution
Mayoral committee	
Executive Mayor	Mr. T.X. Matwa (re - elected 18 May 2011)
Councillors	Mr. P.D. Basholo (elected 18 May 2011) Mrs. W. Coakley (term ended 30 May 2011) Ms. K.E. Dhlomo (re-elected 18 May 2011) Mrs. H.M. Hagenmann (re-elected 18 May 2011) Mrs. M. Khiwanana (term ended 30 April 2011) Mr. J.T. Koyana (re-elected 18 May 2011) Mrs. M.E. Maema (term ended 30 April 2011) Mr. M. Mafata (term ended 30 April 2011) Mrs. M.E. Masana (elected 18 May 2011) Mr. M.M. Matseo (re-elected 18 May 2011) Mr. P. Mdlokovana (term ended 30 April 2011) Mr. M.A. Moeketsi (term ended 30 April 2011) Mrs. N. Mqgaliso (term ended 30 April 2011) Mr. T.A. Phafudi (elected 18 May 2011) Mr. D. Phepheng (elected 18 May 2011) Mr. M. Pholo (term ended 30 April 2011) Mr. A. Rigala (elected 18 May 2011) Mrs. H. Shebe (elected 18 May 2011) Mr. B. Smit (elected 18 May 2011) Mr. S.A. Sola (elected 18 May 2011) Ms N. Spochter (elected 18 May 2011) Mrs. J. Stuurman (elected 18 May 2011)
Grading of local authority	Grade Two Local Authority
Accounting Officer	Mrs. L. Y. Moletsane
Chief Finance Officer (CFO)	Mr. M.J. Monnaruri
Registered office	20 Louw Street Trompsburg 9913
Postal address	P.O. Box 23 Trompsburg 9913
Bankers	First National Bank
Auditors	Auditor General of South Africa
Attorneys	Bomela Attorneys - Bloemfontein

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

General Information

Relevant legislation

Basic Conditions of Employment Act (Act no. 75 of 1997)
Division of Revenue Act
Electricity Act (Act no. 41 of 1987)
Employment Equity Act (Act. no. 55 of 1998)
Housing Act (Act no. 107 of 1997)
Income Tax Act (Act no 58 of 1962)
Municipal Finance Management Act (Act no. 56 of 2003)
Municipal Planning and Performance Management Regulations
Municipal Property Rates Act (Act no. 6 of 2004)
Municipal Structure Act (Act no. 117 of 1998)
Municipal System Act (Act no. 32 of 2000)
Skills Development Levies Act (Act no. 9 of 1999)
South African Local Bargaining Council Regulations
Supply Chain Management Regulation of 2005
Unemployment Insurance Act (Act no. 30 of 1996)
Value-Added Tax Act (Act no. 89 of 1991)
Water Services Act (Act no. 108 of 1997)



Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Index

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

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Accounting Officer's Responsibilities and Approval	79
Statement of Financial Position	80
Statement of Financial Performance	81
Statement of Changes in Net Assets	82
Cash flow statement	83
Accounting Policies	84-95
Notes to the Annual Financial Statements	96-121



Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 76 to 121, which have been prepared on the going concern basis, were approved by the accounting officer on 2 September 2011 and were signed on its behalf by:

Mrs. L.Y. Moletsane

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	2	50,942	35,000
Trade receivables from exchange transactions	3	387,793	2,108,199
Other receivables from exchange transactions	4	7,718,814	299,548
Other receivables from non-exchange transactions	5	23,402,248	19,228,417
Cash and cash equivalents	6	2,720,282	2,495,512
Short term portion of long term debtors	7	5,405	5,747
		34,285,484	24,172,423
Non-Current Assets			
Property, plant and equipment	8	362,142,160	330,551,220
Long term debtors	7	1,523	5,072
		362,143,683	330,556,292
Total Assets		396,429,167	354,728,715
Liabilities			
Current Liabilities			
Consumer deposits	9	1,155,390	712,853
Trade and other payables	10	58,940,833	46,037,185
Long-term liabilities	11	258,656	258,656
Finance lease obligation	12	237,667	236,436
Unspent conditional grants and receipts	13	2,196,246	2,776,863
VAT payable	14	4,630,285	3,022,931
Bank overdraft	6	4,995,662	8,554,282
		72,414,739	61,599,206
Non-Current Liabilities			
Long-term liabilities	11	2,332,240	2,590,897
Finance lease obligation	12	397,470	459,458
		2,729,710	3,050,355
Total Liabilities		75,144,449	64,649,561
Net Assets		321,284,718	290,079,154
Net Assets			
Reserves			
Housing Development Fund		511,395	511,395
Accumulated surplus		320,773,323	289,567,759
Total Net Assets		321,284,718	290,079,154

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Donations		46,100	-
Fines		129,865	83,955
Government grants & subsidies	20	117,507,526	102,809,803
Interest received	16	3,663,891	2,974,287
Other revenue		2,146,541	2,219,116
Property rates	21	7,515,084	8,189,656
Rental of facilities and equipment		998,130	1,055,816
Sale of goods		36,449	57,433
Service charges	22	52,908,021	46,812,349
Total Revenue		184,951,607	164,202,415
Expenditure			
Administration		(573,120)	(413,180)
Bulk purchases	23	(39,213,167)	(30,032,457)
Debt impairment	24	(14,784,362)	(46,749,178)
Employee related costs	25	(54,129,324)	(43,914,182)
Finance costs	17	(5,307,124)	(3,007,286)
General Expenses	26	(31,497,008)	(32,507,937)
Remuneration of councillors	27	(3,434,136)	(3,235,659)
Repairs and maintenance		(3,680,940)	(2,738,001)
Total Expenditure		(152,619,181)	(162,597,880)
Surplus for the year		32,332,426	1,604,535

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
Opening balance as previously reported	511,395	286,899,938	287,411,333
Adjustments			
Prior year adjustments	-	1,063,286	1,063,286
Balance at 01 July, 2009 as restated	511,395	287,963,224	288,474,619
Changes in net assets			
Surplus for the year	-	1,604,535	1,604,535
Total changes	-	1,604,535	1,604,535
Opening balance as previously reported	511,395	289,567,759	290,079,154
Adjustments			
Prior year adjustments	-	(1,126,862)	(1,126,862)
Balance at 01 July, 2010 as restated	511,395	288,440,897	288,952,292
Changes in net assets			
Surplus for the year	-	32,332,426	32,332,426
Total changes	-	32,332,426	32,332,426
Balance at 30 June, 2011	511,395	320,773,323	321,284,718

Note(s)



Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Cash flow statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		177,884,719	190,040,433
Interest income		3,663,891	2,974,287
		<u>181,548,610</u>	<u>193,014,720</u>
Payments			
Employee costs		(56,272,519)	46,702,982
Suppliers		(84,508,520)	(227,072,495)
Finance costs		(4,587,600)	(2,923,149)
		<u>(145,368,639)</u>	<u>(183,292,662)</u>
Net cash flows from operating activities	19	36,179,971	9,722,058
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(31,590,940)	(29,422,819)
Purchase of long term debtors		-	28,963
Proceeds from sale of long term debtors		3,549	-
Net cash flows from investing activities		(31,587,391)	(29,393,856)
Cash flows from financing activities			
Repayment of long-term liabilities		(258,657)	(298,571)
Movement in other liability 1		-	20,202
Finance lease payments		(550,532)	-
Finance lease receipts		-	695,894
Net cash flows from financing activities		(809,189)	417,525
Net increase/(decrease) in cash and cash equivalents		3,783,391	(19,254,273)
Cash and cash equivalents at the <i>beginning</i> of the year		(6,058,770)	(5,575,705)
Cash and cash equivalents at the end of the year	6	(2,275,379)	(24,829,978)

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1. Presentation of Annual Financial Statements

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

The standards are summarised as follows:

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associate
GRAP 8 Interests in Joint Ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economics
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events after the reporting date
GRAP 16 Investment Property
GRAP 17 Property, Plant and Equipment (PPE)
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 Non-Current Assets Held for Sale and Discontinued Operations
GRAP 101 Agricultural
GRAP 102 Intangible assets
GAMAP 9 Revenue from Government Grants
IGRAP 1 Applying the Probability Test on Initial Recognition of Exchange Revenue
IPSA 20 Related Party Disclosures
IFRS 7 Financial Instruments: Disclosure
IAS 19 Employee Benefits
IAS 32 Financial Instruments: Presentation
IAS 36 Impairment of Assets
IAS 39 Financial Instruments: Recognition and Measurement

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

GRAP 18	Segment Reporting
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of budget information
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

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

These accounting policies are consistent with the previous period, except for the changes set out in the note of "Changes in accounting policy."

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Inventories

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.2 Inventories (continued)

inventories having a similar nature and use to the municipality.

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

1.3 Property, plant and equipment

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

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

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

Initial measurement

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Subsequent measurement

Property, plant and equipment are depreciated on a straight line basis over their expected useful lives to their estimated residual value. Land is not depreciated as it is deemed to have an indefinite useful life.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses

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

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.3 Property, plant and equipment (continued)

another asset.

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

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

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

1.4 Financial instruments

Classification

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

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

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- in rare circumstances
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

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

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

Financial instruments are measured initially at fair value.

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.4 Financial instruments (continued)

Subsequent measurement

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

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

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

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

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

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

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

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

Fair value determination

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

Impairment of financial assets

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

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

Impairment losses are recognised in surplus or deficit.

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

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

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

Trade and other receivables

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.4 Financial instruments (continued)

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial asset

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.4 Financial instruments (continued)

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.5 Leases

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

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the future minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between finance cost and capital repayment using the effective interest rate method. The accounting policies relating to derecognition of financial instrument are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful or the lease term.

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

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

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

Operating leases - lessee

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

1.6 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.6 Employee benefits (continued)

Defined contribution plans

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

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

1.7 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised.

1.8 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.8 Revenue from exchange transactions (continued)

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

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

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.9 Revenue from non-exchange transactions

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

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

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

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

Fines

Revenue from the issuing of fines is recognised when:

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

Government grants

Government grants are recognised as revenue when:

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

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

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

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.9 Revenue from non-exchange transactions (continued)

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

1.10 Investment income

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

1.11 Comparative figures

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

1.12 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.13 Fruitless and wasteful expenditure

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

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

1.14 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of this Act.

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

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

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

1.15 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.16 Offsetting

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

1.17 Conditional grants and receipts

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

1.18 Turnover

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

1.19 Presentation of currency

These annual financial statements are presented in South African Rand.

1.20 Housing development fund

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

1.21 Investments

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

1.22 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Koponong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

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Figures in Rand	2011	2010
2. Inventories		
Game	13,000	35,000
Stationery	37,942	-
	50,942	35,000
3. Trade receivables from exchange transactions		
Gross balances		
Electricity	1,387,567	1,021,739
Housing rental	2,954,896	2,393,482
Unallocated debtors receipts	(1,285,337)	-
Refuse	14,451,506	12,559,230
Sewerage	19,627,322	17,056,409
Water	14,406,481	12,043,307
Payments in advance	-	(3,183,736)
Cash control account	-	(2,031,651)
	51,542,435	39,858,780
Less: Provision for debt impairment		
Electricity	(405,473)	-
Housing rental	(3,066,271)	(2,353,725)
Refuse	(14,291,920)	(12,308,837)
Sewerage	(19,405,038)	(16,708,600)
Water	(13,985,940)	(11,594,806)
Payments in advance	-	3,183,736
Cash control account	-	2,031,651
	(51,154,642)	(37,750,581)
Net balance		
Electricity	982,094	1,021,739
Housing rental	(111,375)	39,757
Unallocated debtors receipts	(1,285,337)	-
Refuse	159,586	250,393
Sewerage	222,284	347,809
Water	420,541	448,501
	387,793	2,108,199
Electricity		
The detailed age analysis for Electricity debtors is not available. Only the totals have been provided.	982,094	1,021,739
Housing rental		
The detailed age analysis for housing rental debtors is not available. Only the totals have been provided.	(111,375)	69,568
31 - 60 days	-	55,094
61 - 90 days	-	53,705
> 90 days	-	2,215,115
less: provision for debt impairment	-	(2,353,725)
	(111,375)	39,757
Refuse		
The detailed age analysis for refuse debtors is not available. Only the totals have been provided.	159,586	304,260
31 - 60 days	-	484,938
61 - 90 days	-	434,718

Kopanong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
3. Trade receivables from exchange transactions (continued)		
> 90 days	-	11,335,314
less: provision for debt impairment	-	(12,308,837)
	159,586	250,393
Sewerage		
The detailed age analysis for sewerage debtors is not available. Only the totals have been provided.	222,284	669,950
31 - 60 days	-	597,490
61 - 90 days	-	469,932
> 90 days	-	15,319,037
less: provision for debt impairment	-	(16,708,600)
	222,284	347,809
Water		
Current (0 -30 days)	420,541	508,480
31 - 60 days	-	484,713
61 - 90 days	-	400,388
> 90 days	-	10,649,726
less: provision for debt impairment	-	(11,594,806)
	420,541	448,501
Reconciliation of debt impairment provision		
Balance at beginning of the year	(42,965,968)	(11,526,559)
Contributions to provision	(14,784,362)	(31,439,409)
Debt impairment written off against provision	6,595,688	-
	(51,154,642)	(42,965,968)
Fair value determination		
Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.		
Unallocated debtors receipts		
Unallocated receipts on service charges at 30 June 2011	(1,285,337)	-

Receivables impaired

In principle it was decided that, if a debtor has any debt older than 120 days, the debtor will probably not pay and the full debtor should be provided. However, there may be cases where the debtor is paying the current debt, but does not have old debt. In principle it was then decided that the debtor will most probably not pay the old debt. Therefore, if a debtor has no outstanding amounts in the the 60, 90, 120 or 150 day categories, the balance in 180 days is provided.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

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4. Other receivables from exchange transactions

Cash control	957,339	-
Other debtors	6,617,100	5,110,216
Leave debtors	166,285	-
Fair value adjustment	(20,554)	-
Impair for bad debts	(1,356)	(4,810,668)
	7,718,814	299,548

Fair value determination

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

Receivables impaired

In principle it was decided that, if a debtor has any debt older than 120 days, the debtor will probably not pay and the full debtor should be provided. However, there may be cases where the debtor is paying the current debt, but does not have old debt. In principle it was then decided that the debtor will most probably not pay the old debt. Therefore, if a debtor has no outstanding amounts in the the 60, 90, 120 or 150 day categories, the balance in 180 days is provided.

5. Other receivables from non-exchange transactions

Government grants and subsidies	18,538,902	16,895,598
Unallocated Debtor Receipts	(377,664)	-
Consumer debtor: Rates	15,114,411	12,964,037
Impair for bad debts	(9,873,401)	(10,631,218)
	23,402,248	19,228,417

Consumer debtor: Rates

Gross balance	15,114,411	12,964,037
Less: Provision for debt impairment	(9,873,401)	(10,631,218)
	5,241,010	2,332,819

Rates

The detailed age analysis for Rate debtors is not available. Only the totals have been provided.	5,241,010	-
Current (0 -30 days)	-	41,900
31 - 60 days	-	427,916
61 - 90 days	-	417,231
> 90 days	-	12,076,990
less: provision for debt impairment	-	(10,631,218)
	5,241,010	2,332,819

Unallocated debtors receipts

(377,664) -

Fair value determination

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

Receivables impaired

In principle it was decided that, if a debtor has any debt older than 120 days, the debtor will probably not pay and the full debtor should be provided. However, there may be cases where the debtor is paying the current debt, but does not have old debt. In principle it was then decided that the debtor will most probably not pay the old debt. Therefore, if a debtor has no

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

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5. Other receivables from non-exchange transactions (continued)

outstanding amounts in the the 60, 90, 120 or 150 day categories, the balance in 180 days is provided.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash on hand	16,084	16,084
Short-term deposits	2,660,682	2,373,140
Bank balances	43,516	106,288
Bank overdraft	(4,995,662)	(8,554,282)
	(2,275,380)	(6,058,770)
Current assets	2,720,282	2,495,512
Current liabilities	(4,995,662)	(8,554,282)
	(2,275,380)	(6,058,770)

Cash and cash equivalents pledged as collateral

Investments pledged as security.

1,685,550 -

The municipality will lose its right to the above amount which is a continuing general or collateral security for the bank overdraft notwithstanding any intermediate settlement or discharge of its obligations or indebtedness towards the bank

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2011	30 June, 2010	30 June, 2009	30 June, 2011	30 June, 2010	30 June, 2009
FNB - Business cheque account - 6202 195 027 6	(4,995,663)	(8,609,184)	(4,270,559)	(5,081,402)	(10,272,547)	(5,662,038)
Standard Bank - Business cheque account - 04 191 730 8	22,459	44,601	28,071	22,459	44,601	28,071
ABSA - Business cheque account - 246 014 2140	21,057	61,686	43,178	21,057	61,687	43,178
Post - Bank Current account- 00088133677	221,739	-	-	221,739	-	-
Total	(4,730,408)	(8,502,897)	(4,199,310)	(4,816,147)	(10,166,259)	(5,590,789)

Included in the cashbook balance is outstanding cheques amounting to R85 739 (2010: R1 663 363)

7. Long term debtors

Gariepdam Housing Scheme	6,928	10,819
Less: Current portion transferred to current liabilities	(5,405)	(5,747)
	1,523	5,072

8. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	9,778,673	-	9,778,673	9,778,673	-	9,778,673
Buildings	12,488,004	-	12,488,004	12,488,004	-	12,488,004
Infrastructure	320,361,774	-	320,361,774	289,274,186	-	289,274,186
Community	9,889,170	-	9,889,170	9,888,206	-	9,888,206

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand		2011	2010
8. Property, plant and equipment (continued)			
Other property, plant and equipment	9,251,492	-	9,251,492
Heritage	373,047	-	373,047
Total	362,142,160	-	362,142,160

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Land	9,778,673	-	9,778,673
Buildings	12,488,004	-	12,488,004
Infrastructure	289,274,186	31,087,588	320,361,774
Community	9,888,206	964	9,889,170
Other property, plant and equipment	8,749,104	502,388	9,251,492
Heritage	373,047	-	373,047
	330,551,220	31,590,940	362,142,160

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Land	9,778,673	-	9,778,673
Buildings	12,488,004	-	12,488,004
Infrastructure	263,100,962	26,173,224	289,274,186
Community	7,737,810	2,150,396	9,888,206
Other property, plant and equipment	7,649,905	1,099,199	8,749,104
Heritage	373,047	-	373,047
	301,128,401	29,422,819	330,551,220

Pledged as security

Carrying value of assets pledged as security:

Other property, plant and equipment (office equipment)	652,996	652,996
The value of the outstanding lease obligation is R 635 137 (2010 - R 695 893). Refer to note 12.		

9. Consumer deposits

Rates, water and refuse	1,155,390	712,853
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10. Trade and other payables

Trade payables	46,517,695	40,660,065
Bethulie housing projects	14,665	14,665
Bonus accrual	1,338,348	1,218,317
Centlec	5,572,271	447,034
Leave accrual	3,616,358	3,624,104
Debtors payments in advance	1,881,496	-
Unallocated income	-	73,000
	58,940,833	46,037,185

Koponong Local Municipality

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Figures in Rand	2011	2010
11. Long-term liabilities		
Held at amortised cost		
Mangaung 2 This loan is repayable in 3 annual instalments of R 20 034, excluding interest accrued at a rate of 10%, calculated annually.	60,103	80,137
Mangaung 3 This loan is repayable in 14 annual instalments of R 7 766, excluding interest accrued at a rate of 10%, calculated annually.	108,727	116,493
Mangaung 4 This loan is repayable in 4 annual instalments of R 32 238, excluding interest accrued at a rate of 10%, calculated annually.	128,954	161,193
Mangaung 5 This loan is repayable in 12 annual instalments of R 44 689, excluding interest accrued at a rate of 10%, calculated annually.	536,264	580,953
Mangaung 6 This loan is repayable in 13 annual instalments of R 15 304, excluding interest accrued at a rate of 10%, calculated annually.	198,951	214,255
Mangaung 7 This loan is repayable in 13 annual instalments of R 18 101, excluding interest accrued at a rate of 10%, calculated annually.	235,306	253,406
Mangaung 8 This loan is repayable in 12 annual instalments of R 11 634, excluding interest accrued at a rate of 10%, calculated annually.	151,239	151,239
Managaung 9 This loan is repayable in 13 annual instalments of R 24 016, excluding interest accrued at a rate of 10%, calculated annually.	253,793	336,227
Managaung 10 This loan is repayable in 2 annual instalments of R 13 228, excluding interest accrued at a rate of 10%, calculated annually.	26,455	39,683
Mangaung 11 This loan is repayable in 2 annual instalments of R 13 228, excluding interest accrued at a rate of 10%, calculated annually.	26,455	39,683
Mangaung 12 This loan is repayable in 14 annual instalments of R 58 419, excluding interest accrued at a rate of 10%, calculated annually.	864,649	876,284
	2,590,896	2,849,553
Non-current liabilities		
At amortised cost	2,332,240	2,590,897
Current liabilities		
At amortised cost	258,656	258,656
	2,590,896	2,849,553

Kopanong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
12. Finance lease obligation		
Minimum lease payments due		
- within one year	633,112	550,532
- in second to fifth year inclusive	526,322	1,159,434
	1,159,434	1,709,966
less: future finance charges	(524,297)	(1,014,073)
Present value of minimum lease payments	635,137	695,893
Present value of minimum lease payments due		
- within one year	237,667	236,436
- in second to fifth year inclusive	397,470	459,457
	635,137	695,893
Non-current liabilities	397,470	459,458
Current liabilities	237,667	236,436
	635,137	695,894
<p>The lease term is 3 years and the effective borrowing rate is 9% (2010: 9%). The outstanding lease amount is payable in monthly installment of R 50 852 (2010 - R 44 219)</p> <p>Interest rates are fixed at the contract date. All leases escalate at 15% p.a and no arrangements have been entered into for contingent rent.</p> <p>The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 8.</p>		
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Arts and craft grant (Dept of Sports and Culture)	500,000	500,000
Communage grant (DBSA)	26,171	26,171
Draught relief grant (COGTA)	-	478,753
Financial management grant	-	202,001
Municipal Infrastructure grant	1,204,038	1,077,674
SITA grant	-	26,227
Sport facilities grant (National Lottery)	301,981	301,981
Survey of erven grant (COGTA)	164,056	164,056
	2,196,246	2,776,863
Movement during the year		
Balance at the beginning of the year	2,776,864	2,486,202
Additions during the year	42,567,853	40,831,964
Income recognition during the year	(43,148,471)	(40,541,303)
	2,196,246	2,776,863

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

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

See note 21 for a reconciliation of grants.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
14. VAT payable		
Tax refunds payables	4,630,285	3,022,931
15. Revenue		
Donations	46,100	-
Fines	129,865	83,955
Government grants & subsidies	117,507,526	102,809,803
Other revenue	2,146,541	2,219,116
Property rates	7,515,084	8,189,656
Rental of facilities & equipment	998,130	1,055,816
Sale of goods	36,449	57,433
Service charges	52,908,021	46,812,349
	181,287,716	161,228,128
The amount included in revenue arising from exchanges of goods or services are as follows:		
Other revenue	2,146,541	2,219,116
Rental of facilities & equipment	998,130	1,055,816
Sale of goods	36,449	57,433
Service charges	52,908,021	46,812,349
	56,089,141	50,144,714
The amount included in revenue arising from non-exchange transactions is as follows:		
Donations	46,100	-
Fines	129,865	83,955
Government grants & subsidies	117,507,526	102,809,803
Property rates	7,515,084	8,189,656
	125,198,575	111,083,414
16. Investment revenue		
Interest revenue		
Bank	94,347	137,106
Fair value adjustments on receivables	161,996	563,173
Interest charged on trade and other receivables	3,407,548	2,274,008
	3,663,891	2,974,287
17. Finance costs		
Bank	233,315	579,495
Fair value adjustments on payables	3,160,602	1,760,017
Finance leases	489,775	84,137
Long-term loans	284,956	310,821
Other interest paid	1,138,476	272,816
	5,307,124	3,007,286

Kopanong Local Municipality

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18. Prior period errors

The following errors occurred in relation to the prior financial year which necessitated correction in the current financial year. The errors were corrected retrospectively in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors.

18.1 Caleb Motshabi Stadium:

A stadium was donated during the 2008/2009 financial year by the Xhariep District Municipality to Kopanong Local Municipality. This stadium was not accounted for in the records of the local municipality. The comparative year has been restated to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Increase in PPE	R4 070 572
Increase in Accumulated Surplus/(defici	(R4 070 572)

18.2 SAMWU PENSION FUND:

The municipality deducted employees' and employer pension fund contributions in current and prior periods but failed to pay over the funds to the pension fund managers. This resulted in interest being charged on the outstanding balance. As a result, the balance owing per the municipality's records did not agree with the balance owing per the pension fund's records. Creditors were thus understated in the prior financial years. The comparative year has been restated in order to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Decrease in Accumulated Surplus	R6 905 079
Increase in creditors	(R6 905 079)

18.3 Finance lease obligation:

A finance lease obligation in respect of a lease agreement was outstanding at the end of the previous financial year. The lease agreement had come to an end and hence the liability had to be written off. The comparative year has been restated to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Decrease in Lease Liability	R175 679
Increase in Accumulated Surplus	(R175 679)

18.4 SARS-VAT:

An amount was disclosed as owing to SARS in respect of unpaid output VAT. After an investigation and a VAT reconciliation was performed by SARS, it was found that the municipality had overstated the amount owing. The comparative year has been restated to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Decrease in VAT Payables	R5 735 808
Increase in Accumulated Surplus	(R5 734 809)

18.5 Health Debtor:

A health debtor was erroneously created in the previous financial year. It was later established that it cannot be claimed from the District Municipality as a service level agreement has not been entered into. The comparative year has been restated to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Decrease in Accumulated Surplus	R 2 012 694
Decrease in Other Receivables from Exchange transactions	(R2 012 693)

Kopanong Local Municipality

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18. Prior period errors (continued)

The above changes have resulted in the restatement of accumulated surplus on 01/07/2009. The total prior year error in this regard can be summarised as follows.

Increase in PPE(Note 18.1)	R4 070 571
Increase in salary creditors(Note 18.2)	(R6 905 079)
Decrease in finance lease obligation(Note 18.3)	R175 679
Decrease in VAT payable(Note 18.4)	R5 734 808
Decrease in Health debtors(Note 18.5)	(R2 012 693)
Total	R1 063 287

18.6 Staff cost

Employees were dismissed during the 2009/2010 financial year. These employees took the municipality to court and at 30/06/2010, the municipality interms of a court order had to pay the affected employees R541 144. This amount was not recognised as a payable and has been corrected. The net effect on the financial statements is as follows:

Increase in staff cost	R541 144
Increase in salary creditors	(R541 144)

18.7 Fruitless and wasteful expenses

During previous financial years, the municipality contributed and deducted pension fund contributions on behalf of its employees. This money was, however, not paid over to the pension fund. Hence, the municipality incurred interest which gave rise to undisclosed fruitless and wasteful expenses. The net effect on the financial statements (Note 38) is as follows:

Interest incurred on and before 30/06/2009	R6 905 079
Interest incurred during the 2009/2010 financial year	R819 832
Total	R7 724 911

18.8 Irregular Expenditure

During the 2009/2010 financial year, a vehicle was acquired from the sole supplier of that brand of vehicles and the payment was recorded as irregular. Also, other irregular expenses were identified after the financial statements (Note 39) were audited and these have been disclosed. These have been corrected and the corresponding amounts restated as follows:

Balance previously reported	R17 996 839
Less payment to John Williams incorrectly included	(R354 128)
Irregular expenses not previously disclosed	R20 594 753
Total	R38 237 464

18.9 Deviations from SCMP

Approved deviations from the municipal Supply Chain Management Policy recorded during the 2009/2010 year were no disclosed in the financial statement (Note 42). This has been corrected and the corresponding amount restated as follows:

Balance originally stated	R0.00
Approved deviations during the year	R541 282
Restated closing balance	R541 282

18.10 Salary creditors

The pension fund creditor amounting to R141 526 was overstated while salary creditors amounting to R888 892 were carried over from the TLC's in error. A council resolution to write down the overstated creditors was passed. These have been corrected and restated as follows:

Koponong Local Municipality

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Notes to the Annual Financial Statements

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18. Prior period errors (continued)

Decrease in creditors	R1 030 418
Decrease in general expenses	(R1 030 418)

18.11 Centlec

Bulk purchases of the electricity service provider was not accounted for. This has been corrected and the corresponding figures restated as follows:

Increase in Electricity bulk purchases	R628 321
Increase trade and other payables	(R628 321)

18.12 SAMWU Interest

During 2008/2009 financial year, the municipality contributed and deducted pension fund contributions on behalf of its employees. This money was, however, not paid over to the pension fund. Hence, the municipality incurred interest which was not brought to book. This has been corrected and the net effect of this correction is as follows:

Increase in General expenses(Interest)	R819 832
Increase in Salary creditor	(R819 832)

18.13 Old year cheques cancelled

Uncredited old year cheques were written back and the effect of the correction is as follows:

Decrease in bank overdraft	R54 902
Increase in cash and cash equivalents	R30 137
Decrease in general expenditure	(R85 039)

19. Cash generated from operations

Surplus	32,332,426	1,604,535
Adjustments for:		
Finance costs - Finance leases	489,775	84,137
Debt impairment	14,784,362	46,749,178
Prior year correction	(1,126,861)	-
Changes in working capital:		
Inventories	(15,942)	98,600
Other receivables from exchange transactions	(7,419,266)	-
Other receivables from non-exchange transactions	(4,173,831)	(46,749,178)
Consumer debtors	(13,063,956)	-
Short term portion of long term debtors	342	8,761
Trade and other payables	12,903,648	2,124,953
VAT	1,607,354	8,992,269
Unspent conditional grants and receipts	(580,617)	(648,454)
Consumer deposits	442,537	(2,542,743)
	36,179,971	9,722,058

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Figures in Rand	2011	2010
20. Government grants and subsidies		
COGTA grant - paid Auditor General	3,116,871	-
Draught relief COGTA	478,753	398,199
Equitable share	74,403,500	62,268,500
Financial Help: COGTA	4,300,000	6,980,000
Financial management grant	1,402,002	547,999
Library grant	73,000	-
Local Government and Housing	-	84,256
Municipal Infrastructure Grant	30,956,120	29,036,612
Municipal Systems Information Grant	750,000	735,000
SETA Learnership	-	279,754
VAT from capital grants	2,027,280	2,479,483
	117,507,526	102,809,803
Arts and craft grant (Dept. of Sports and Culture)		
Balance unspent at beginning of year	500,000	500,000
Conditions still to be met - remain liabilities (see note 13)		
COGTA grant - paid Auditor General		
Current-year receipts	3,116,871	-
Conditions met - transferred to revenue	(3,116,871)	-
	-	-
Communage grant (DBSA)		
Balance unspent at beginning of year	26,171	26,171
Conditions still to be met - remain liabilities (see note 13)		
Draught relief COGTA		
Balance unspent at beginning of year	478,753	205,316
Current-year receipts	-	671,636
Conditions met - transferred to revenue	(478,753)	(398,199)
	-	478,753
Equitable Share		
In terms of the Constitution of the Republic of South Africa, No. 108 of 1996, this grant is used to subsidise the provision of basic services to indigent community members and to subsidise income. No significant decrease is expected in the level of this grant.		
Financial help (COGTA)		
Current-year receipts	4,300,000	6,980,000
Conditions met - transferred to revenue	(4,300,000)	(6,980,000)
	-	-
Financial management grant		
Balance unspent at beginning of year	202,001	-
Current-year receipts	1,200,000	750,000

Kopanong Local Municipality

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Figures in Rand	2011	2010
20. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	(1,402,001)	(547,999)
	-	202,001
Library grant		
Current-year receipts	73,000	-
Conditions met - transferred to revenue	(73,000)	-
	-	-
Municipal infrastructure grant		
Balance unspent at beginning of year	1,077,674	4,097,662
Current-year receipts	33,109,764	26,016,624
Conditions met - transferred to revenue	(30,956,120)	(29,036,612)
VAT - Department of Water Affairs	(2,027,280)	-
	1,204,038	1,077,674
Conditions still to be met - remain liabilities (see note 13)		
Municipal systems improvement grant		
Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(750,000)	(735,000)
	-	-
Sport facilities grant (National Lottery)		
Balance unspent at beginning of year	301,981	301,981
Conditions still to be met - remain liabilities (see note 13)		
SITA grant		
Balance unspent at beginning of year	26,227	96,000
Current-year receipts	18,219	209,981
Conditions met - transferred to revenue	(44,446)	(279,754)
	-	26,227
Survey of erven (COGTA)		
Balance unspent at beginning of year	164,056	248,312
Conditions met - transferred to revenue	-	(84,256)
	164,056	164,056
Conditions still to be met - remain liabilities (see note 13)		

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

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	2011	2010
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21. Property rates

Rates received

Rates	7,515,084	8,189,656
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The details of rates levied as per different categories on the valuation roll were not available for the year under review.

Valuations

Church	21,105,000	-
Commercial	100,742,900	135,901,300
Empty site, no tariff and municipal property	37,378,876	1,904,568,550
Hospital	1,458,000	-
Residential	893,717,635	803,738,000
School	43,460,500	-
Small holdings and farms	2,485,374,000	-
State	30,665,000	299,856,500
	3,613,901,911	3,144,064,350

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

22. Service charges

Refuse removal	6,020,613	5,874,556
Sale of electricity	31,130,721	27,401,225
Sale of water	7,465,594	5,389,589
Sewerage and sanitation charges	8,291,093	8,146,979
	52,908,021	46,812,349

23. Bulk purchases

Electricity	22,437,433	17,171,796
Water	16,775,734	12,860,661
	39,213,167	30,032,457

24. Debt impairment

Contributions to debt impairment provision	14,784,362	46,749,178
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Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

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Figures in Rand	2011	2010
25. Employee related costs		
Basic	38,278,721	28,965,148
Bonus	2,906,546	2,093,459
Bonus provision	120,032	142,333
Car allowance	3,405,250	2,494,086
Housing benefits and allowances	115,994	157,894
Medical aid	1,991,580	1,314,798
Other allowances	287,076	881,662
Overtime payments	1,108,935	1,149,273
Pension fund contributions	5,267,244	4,129,443
Leave provision	120,077	2,093,906
Telephone allowance	159,083	140,875
Temporarily workers	-	52,960
UIF	368,786	298,345
	54,129,324	43,914,182
Remuneration of Municipal Manager		
Basic	493,019	415,499
Bonus	41,821	30,166
Acting allowance	5,311	25,055
Travel allowance	302,605	244,296
Cellphone allowance	3,600	6,283
Housing allowance	-	2,447
Contributions to UIF, Medical and Provident Fund	15,180	46,624
	861,536	770,370
Remuneration of Chief Finance Officer		
Basic	502,497	288,653
Bonus	41,643	21,925
Acting allowance	-	33,224
Back pay	-	2,100
Travel allowance	108,441	69,974
Cellphone allowance	-	3,300
Housing allowance	-	7,386
Leave payment	-	10,104
Contributions to UIF, Medical and Provident Fund	1,497	34,460
	654,078	471,126
Remuneration of Head Technical Services		
Basic	382,265	314,742
Bonus	31,868	22,100
Acting allowance	-	33,224
Back pay	-	2,100
Travel allowance	212,390	82,917
Cellphone allowance	-	3,300
Housing allowance	-	6,011
Leave payment	-	10,608
Contributions to UIF, Medical and Provident Fund	33,812	75,102
	660,335	550,104

Kopanong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
25. Employee related costs (continued)		
Remuneration of Head Corporate Services		
Basic	382,419	203,863
Bonus	31,868	33,700
Acting allowance	-	136,144
Back pay	-	2,100
Travel allowance	227,902	66,917
Cellphone allowance	-	900
Housing allowance	-	2,092
Leave payment	-	12,357
Contributions to UIF, Medical and Provident Fund	10,683	46,970
	652,872	505,043
Remuneration of Head Community Services		
Basic	382,380	372,671
Bonus	31,868	29,000
Acting allowance	-	9,015
Back pay	-	2,100
Car allowance	198,850	143,346
Cellphone allowance	-	900
Housing allowance	9,786	9,115
Leave payment	-	7,956
Contributions to UIF, Medical and Provident Fund	29,300	55,476
	652,184	629,579
26. General expenses		
Advertising	86,730	181,384
Audit fees	3,876,726	3,176,578
Bank charges	201,871	262,953
Bloem Water Electricity	3,215,770	3,215,770
Chemicals	3,747,178	4,749,027
Cleaning	22,133	35,974
Commission vendors	1,192,082	611,034
Departmental electricity	5,052,079	3,507,163
Discretionary fund: Council	66,557	64,235
Entertainment	23,340	16,302
Equitable share expenses	1,045,250	1,917,022
Fuel and oil	1,204,201	1,223,602
Functioning Ward Committees	3,350	46,187
General expenses IAS39	(2,727,539)	(2,722,527)
IDP review	40,681	224,201
Industrial Council	23,243	18,717
Insurance	597,321	1,302,623
Interim valuation cost	1,287,633	798,789
Legal fees and relating interest	2,607,167	6,117,864
License fees	37,980	64,164
Membership fees	180,715	105,614
Other expenses	4,124,588	1,207,979
Performance Management System	25,874	492,102
Postage and stamps	12,298	27,219
Printing and stationery	330,834	197,981
Protective clothing	623,556	11,642
Rental expenses	705,484	796,005
Repayment of arrear creditor	798,490	1,024,697
Skills Development Levy	71,087	350,164

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Figures in Rand	2011	2010
26. General expenses (continued)		
Software licenses	29,806	296,100
Sports tournament	-	50,000
Subsistence and travelling	735,588	694,568
Telephone and fax	2,009,689	2,015,714
Tools	11,389	21,254
Training	187,730	405,836
Transport and freight	46,127	-
	31,497,008	32,507,937

27. Remuneration of councillors

Mayor and Speaker	1,107,672	1,069,542
Councillors	2,326,464	2,166,117
	3,434,136	3,235,659

In-kind benefits

The Mayor and Speaker are full time employees of the municipality. They are provided with an office and administration +support at the cost of the Council

28. Auditors' remuneration

Fees	3,876,726	3,176,578
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29. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Loans and receivables	Total
Trade receivables from exchange transactions	387,793	387,793
Other receivables from exchange transactions	7,718,813	7,718,813
Other receivables from non exchange transactions	23,482,248	23,482,248
Cash and cash equivalents	2,720,282	2,720,282
Long term debtors	6,928	6,928
	34,316,064	34,316,064

2010

	Loans and receivables	Total
Trade receivables from exchange transactions	2,108,199	2,108,199
Other receivables from exchange transactions	299,548	299,548
Other receivables from non-exchange transactions	19,228,417	19,228,417
Cash and cash equivalents	2,495,512	2,495,512
Long term debtors	10,819	10,819
	24,142,495	24,142,495

Kopanong Local Municipality

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Figures in Rand

2011

2010

30. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Financial liabilities at amortised cost	Total
Consumer deposits	1,155,390	1,155,390
Trade and other payables	58,940,833	58,940,833
Long-term liabilities	2,590,896	2,590,896
Finance lease obligation	635,137	635,137
Unspent conditional grants	2,196,246	2,196,246
VAT payable	4,630,285	4,630,285
Bank overdraft	4,995,662	4,995,662
	75,144,449	75,144,449

2010

	Financial liabilities at amortised cost	Total
Consumer deposits	712,853	712,853
Trade and other payables	44,373,822	44,373,822
Long-term liabilities	2,849,553	2,849,553
Finance lease obligation	695,894	695,894
Unspent conditional grants	2,776,863	2,776,863
VAT payable	3,022,931	3,022,931
Bank overdraft	10,217,645	10,217,645
	64,649,561	64,649,561

31. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	35,956,366	30,615,270
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Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	15,104,993	51,061,359
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This committed expenditure relates to infrastructure and will be financed by available bank facilities, retained surpluses, loans and government grants.

Kopanong Local Municipality

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2011

2010

32. Contingencies

32.1 Litigation is in process against the municipality relating to disputes with former employees who allege that the municipality unlawfully dismissed them. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as likely. However, it can not be determined at this time when the disputes will be resolved or exactly how much claims and damages the municipality will be required to make. The estimated legal costs amount to R490 000

32.2 The municipality is involved in legal actions regarding the review of arbitration awards with the Labour Court. These legal proceedings originated from retainer agreements that were terminated and the nature of these claims include; reinstatement, salaries from date of termination of employment and interest. Since termination of these retainer agreements, accounts to the value of R 27 033 were tendered. The estimated legal cost of these proceedings is R 490 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

32.3 An interdict against the awarding of a tender by the municipality was obtained. The nature of the claim include the review of the tender application and the tender amount of R 3 564 354. The estimated legal cost is R 100 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

32.4 A litigation action against the municipality, relating to a tender awarded by the municipality is in process. In this civil action, the municipality is requested to provide reasons why the plaintiff did not secure a tender to the amount of R 5 707 974. The estimated legal cost is R 100 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

32.5 The municipality is involved in a civil action regarding the claim for damages from the municipality by the plaintiff to the amount of R 1 430 948. The estimated legal cost is R 200 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

33. Related parties

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

34. Risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2011

	Less than 1 year	More than 1 year
Consumer deposits	1,155,390	-
Trade and other payables	53,605,869	-
Long-term liabilities	258,656	2,332,240
Finance lease obligation	237,667	397,470
Unpent conditional grants	1,532,976	-
VAT payable	4,543,786	-
Bank overdraft	5,822,987	-

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2011 2010

34. Risk management (continued)

67,157,331 2,729,710

2010

Consumer deposits	712,853	-
Trade and other payables	39,531,402	-
Long-term liabilities	258,656	2,590,897
Finance lease obligation	236,436	459,458
Unpent conditional grants	2,776,863	-
VAT payable	3,022,931	-
Bank overdraft	10,055,485	-
	56,594,626	3,050,355

Interest rate risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates are minimal

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to notes 3 and 5 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

Foreign exchange risk

The municipality does not engage in foreign currency transactions.

Price risk

The municipality is not exposed to price risk.

Kopanong Local Municipality

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	2011	2010
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35. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business atleast for the next twelve months.

The Municipality is situated in a previous disadvantaged background and the community is not able to pay for services as a high percentage of the population is indigent. The collection rate of consumer debtors is therefore also low. This has resulted in a weak cashflow situation and as a result the municipality is not always able to settle its accounts within 30days. The Municipality does however receive government grants, such as an allocated equitables share grant in terms of the Division of Revenue Act and will therefore be operational as a going concern in the foreseeable future.

36. Events after the reporting date

The municipality has no events after reporting date during the financial year ended 2010/2011.

37. Unauthorised expenditure

Opening balance	70,636,698	12,222,637
Budget overspending	15,915,324	58,414,061
	86,552,022	70,636,698

No criminal or disciplinary steps were taken as a consequence of above expenditure.

38. Fruitless and wasteful expenditure

Opening balance	16,264,044	7,897,645
Prior period error(Note 18.2)	-	6,905,079
Fruitless and wasteful expenditure - current year	3,588,401	641,488
Prior period error(Note 18.7)	-	819,832
	19,852,445	16,264,044

No criminal or disciplinary steps were taken as a consequence of above expenditure.

39. Irregular expenditure

Opening balance	39,092,491	855,027
Add: Irregular Expenditure - current year(Note 18.8)	38,917,831	38,237,464
	78,010,322	39,092,491

No criminal or disciplinary steps were taken as a consequence of above expenditure.

40. In-kind donations and assistance

Property, plant and equipment	46,100	-
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A Toyota Hilux was donated by the Government Garage to the municipality.

Kopanong Local Municipality

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Figures in Rand	2011	2010
41. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	51,504	385,094
Current year contributions	152,327	-
Amount paid - current year	-	(300,000)
Amount paid - previous years	-	(33,590)
	203,831	51,504
Material losses through criminal conduct		
Theft of speakers at town hall	1,200	-
Audit fees		
Opening balance	1,519,249	409,459
Current year fee	801,768	1,519,249
Amounts paid	(1,500,000)	(409,459)
	821,017	1,519,249
PAYE and UIF		
Opening balance	2,990,156	1,289,512
Current year payroll deductions	4,797,392	3,631,919
Penalties and interest	395,817	455,412
Corrections made	(3,194,309)	(1,042,988)
Amounts paid	(1,756,355)	(1,343,699)
	3,232,701	2,990,156

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41. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	19,794,620	16,458,770
Current year payroll deductions	13,336,156	7,889,904
Amounts paid	(23,526,978)	(4,554,054)
	9,603,798	19,794,620

VAT

VAT payable	4,630,285	3,022,931
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Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2011:

30 June, 2011

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr. T.X Matwa	465	640	1,105
Mr. J.T. Koyana	527	7,462	7,989
Mr. D. Phepheng	876	5,055	5,931
Mr. A. Rigala	366	1,279	1,645
Mr. S.A. Sola	1,962	13,479	15,441
	4,196	27,915	32,111

30 June, 2010

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
M. Khwinani	233	860	1,093
M.J. Ncokwana	307	5,265	5,572
M.P. Mqaliso	242	673	915
M. Matseo	306	481	787
J.T. Koyana	401	11,347	11,748
M.P. Mqaliso	234	878	1,112
	1,723	19,504	21,227

Other non-compliance

Section 9(b) of the MFMA requires that annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account should be submitted to the relevant provincial treasury and the Auditor-General in writing. The municipality did not adhere to this section in the current year.

Section 32(2) (a) of the MFMA requires that a municipality recovers unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure- in case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by council. No irregular or fruitless and wasteful expenditure were recovered or certified by the council as irrecoverable and written off.

Section 32 (4) (a) of the MFMA states that the accounting officer must promptly inform the mayor, the MEC of local government in the province and the Auditor General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality. The municipality did not inform the relevant parties as required by this section.

Section 62(1)(d) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented. No steps were taken by the municipality to prevent

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2011

2010

41. Additional disclosure in terms of Municipal Finance Management Act (continued)

unauthorised, irregular or fruitless and wasteful expenditure.

In terms of section 65(2)(e) of the MFMA the accounting officer must take reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Contrary to this requirement, all money owing by the municipality was not paid within 30 days of receiving the relevant invoice or statement.

Distribution losses (water)

Number of users - 11 970
Units bought - 4 566 127
Units sold - 1 567 983
Free basic service - 728 856
Units lost on distribution - 2 269 288
Amount of unit losses - R 9 580 579
Units lost in distribution as percentage - 49,7%

Distribution losses (Electricity)

Units bought - 23 658 885
Units sold - 19 196 365
Units lost in distribution - 4 462 520
Amount of unit losses - R2 397 712
Units lost in distribution as a percentage - 18.89%

42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that she records the reasons for any deviations and includes a note to the annual financial statements.

Goods and services to the value of R 304 824 (2009/10: R 541 282) were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above.

Kopanong Local Municipality

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43. Comparative between budet and actual information

2011

	Original budget	Revised budget (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	10,632,676	10,632,676	10,632,676	7,515,084	3,117,592	71 %	71 %
Service charges	50,049,554	50,049,554	50,049,554	52,908,021	(2,858,467)	106 %	106 %
Investment revenue	3,710,185	3,710,185	3,710,185	3,663,891	46,294	99 %	99 %
Transfers recognised - operational	-	-	-	117,507,526	(117,507,526)	DIV/0 %	DIV/0 %
Other own revenue	82,871,605	82,871,605	82,871,605	3,357,085	79,514,520	4 %	4 %
Total revenue (excluding capital transfers and contributions)	147,264,020	147,264,020	147,264,020	184,951,607	(37,687,587)	126 %	126 %
Employee costs	(33,405,856)	(44,863,856)	(44,863,856)	(54,129,324)	9,265,468	121 %	162 %
Remuneration of councillors	(5,103,738)	(5,103,738)	(5,103,738)	(3,434,136)	(1,669,602)	67 %	67 %
Debt impairment	-	-	-	(14,784,362)	14,784,362	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(7,000,000)	-	-	-	-	DIV/0 %	- %
Finance charges	-	-	-	(5,307,124)	5,307,124	DIV/0 %	DIV/0 %
Materials and bulk purchases	(34,926,601)	(34,926,601)	(34,926,601)	(39,213,167)	4,286,566	112 %	112 %
Other expenditure	(66,826,835)	(62,327,755)	(62,327,755)	(35,751,068)	(26,576,687)	57 %	53 %
Total expenditure	(147,263,030)	(147,221,950)	(147,221,950)	(152,619,181)	5,397,231	104 %	104 %
Surplus/(Deficit)	990	42,070	42,070	32,332,426	(32,290,356)	76,854 %	3,265,902 %

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	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Contributions recognised - capital and contributed assets	-	-		-	46,10		(46,100)	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	990	42,070		42,070	32,378,526		(32,336,456)	76,963 %	3,270,558 %
Surplus/(Deficit) for the year	990	42,070		42,070	32,378,526		(32,336,456)	76,963 %	3,270,558 %

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand

Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
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Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011



**AUDIT REPORT
2010-11**

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND COUNCIL ON KOPANONG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Kopanong Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, and the accounting officer's report as set out on pages 79 to 121.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No.1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. For reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness, classification and valuation of, and rights to, property, plant and equipment amounting to R362 142 160 (2010: R330 551 220), as disclosed in the statement of financial position and note 8 to the financial statements. Due to the extent of the weaknesses in the municipality's fixed asset records, the lack of sufficient appropriate supporting documentation and no reliance that could be placed on the internal verification of assets, alternative audit procedures could not be performed. Consequently, I was unable to determine the existence, completeness, classification and valuation of, and rights to, property, plant and equipment.
 - (a) Investment property was not disclosed in the financial statements, although the municipality had property that met the definition of investment property according to the SA Standards of GRAP, GRAP 16, *Investment property*. Due to the lack of properly maintained registers, which detailed the location, value and classification of properties between owner-occupied and investment properties, I was thus unable to perform all the audit procedures that I considered necessary to confirm that property, plant and equipment had been appropriately classified in the financial statements.

- (b) Several assets to the value of R292 083 734 (2010: R265 226 539) could either not be physically verified or could not be traced back to the asset register, owing to vague and unclear descriptions or insufficient detail with regard to the location of the specific asset.
 - (c) The municipality did not account for depreciation or impairment charge for the current and the prior financial years, as required by the SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, which states that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses.
 - (d) The municipality did not identify and disclose servitudes which meet the definition or recognition criteria according to the SA Standards of GRAP, GRAP 102, *Intangible assets*.
 - (e) The asset register does not include details on the classification of property, plant and equipment between land, buildings, infrastructure, community, other property, plant and equipment and heritage, as disclosed in the financial statements.
 - (f) The municipality did not evaluate lease contracts, in the prior and the current financial years, to determine whether it substantially transfers all the risks and rewards incidental to ownership and should be classified as a finance lease according to the SA Standards of GRAP, GRAP 13, *Leases*.
 - (g) Assets acquired at no cost, or for a nominal cost, were not valued at its fair value at the date of acquisition according to the SA Standards of GRAP, GRAP 17, *Property, plant and equipment*.
 - (h) Property, plant and equipment included in the municipality's equipment register were not valued and recognised in terms of the SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Consequently, none of these assets were disclosed in the financial statements.
 - (i) Supporting documentation, including invoices, to confirm acquisitions of property, plant and equipment amounting to R887 464 could not be obtained.
 - (j) Property amounting to R1 861 338 (2010: R3 132 077) was not registered in the name of the municipality. Supporting documentation, to confirm whether property has been registered in the name of the municipality, amounting to R1 437 583, could not be obtained.
5. The municipality expensed assets, which had to be recognised in terms of the SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Had this transaction been correctly treated property, plant and equipment would have increased by R852 606, general expenses decreased by R207 894 and repairs and maintenance by R644 712 as disclosed in note 8 and note 27 respectively of the financial statements.

Revenue

6. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to confirm the completeness, accuracy, occurrence and classification of revenue disclosed as R184 951 607 (2010: R164 202 415) in the statement of financial performance.
- (a) No reconciliation could be provided between the actual income levied for assessment rates and a calculation of the assessment rates income based on the valuation roll. The performance of alternative procedures to recalculate assessment rates individually and compare them with the actual assessment rates charged for receivables for the current year, indicated that assessment rates were understated by R2 492 926 (2010: R3 487 416).
 - (b) Accurate route lists for water charges amounting to R5 857 570, could not be provided. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the

accuracy, completeness and occurrence of water charges. The municipality's records did not permit the application of alternative procedures. Furthermore, several differences relating to the monthly accumulated water charges for the financial period were noted between accounts for receivables and performed recalculations from water meter readings. The differences were caused by meter readings not being captured in a complete and accurate manner from route lists to the receivables system. The error in this respect amounted to R161 518 (2010: R4 501 010).

- (c) Property rental registers were not always prepared, reviewed and reconciled to the general ledger during the financial year. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness and accuracy of revenue from this source that amounted to R902 212 (2010:R1 055 816) for the year under review.
- (d) As a result of community uprising regarding the lack of service delivery, the Reddersburg unit at the Kopanong district was destroyed by fire. The unit no longer had sufficient and appropriate audit evidence in the prior financial year to support the completeness, accuracy and occurrence of revenue recorded by them, as most of the supporting documentation was destroyed in the fire. Furthermore, the control of receipts and deposit books in the prior financial year was insufficient at other units and several receipts and deposit books could not be submitted. As a result, the completeness, occurrence and accuracy of revenue could not be confirmed.
- (e) A complete list or register of rotating electricity meters registered at the Kopanong district, in the prior financial year, could not be provided by the electricity service provider or by the municipality. I was thus unable to confirm whether debtor accounts existed and whether meter readings were taken in respect of all installed electricity meters. The revenue arising from the sale of electricity as per the general ledger and the revenue arising from the sale of electricity as per the billing system did not agree as well. Furthermore, a difference of R930 873 during the prior financial year was identified that could not be explained. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness of revenue from this source that amounted to R10 045 901.
- (f) Receipts to a value of R467 282 could not be traced to bank statements to confirm that the receipts were in fact deposited in the municipality's bank account. The municipality's records did not permit the application of alternative procedures. As a result, sufficient appropriate audit evidence as to the completeness and accuracy of bank deposits amounting to R467 282 could not be obtained.
- (g) The prepaid electricity sales data for the period 1 April 2010 to 30 June 2010 could not be verified, as the information submitted did not agree to the control totals. As a result, sufficient appropriate audit evidence could not be obtained as to the completeness, occurrence and accuracy of the prepaid sales of R17 355 324, in the prior financial year, as included in the sale of electricity in note 22 to the financial statements. The system did not allow for the performance of alternative audit procedures. Furthermore, prepaid electricity sales were not calculated accurately throughout the financial period as a difference of R2 134 770 was noted between actual prepaid electricity sales, as included in note 22 to the financial statements, and prepaid electricity sales re-calculated. As a result no reliance could be placed over the systems implemented to account for prepaid electricity sales. Consequently, sufficient appropriate audit evidence could not be obtained as to the completeness, occurrence and accuracy of the prepaid sales of R18 437 269, as included in the sale of electricity in note 22 to the financial statements.
- (h) Supporting documentation with regard to direct income (electricity reconnections and connections) amounting to R455 382 (2010:R159 104) could not be obtained. Alternatively, a list of quotations was obtained, but the list was not only limited to quotations in respect of connections and could therefore not be traced to direct income.

In the absence of supporting documentation, the occurrence, accuracy and classification of this income could not be confirmed.

7. No refuse and sewerage service charges have been charged to debtors for services rendered during the financial year. Had this transaction been correctly treated service charges would have increased by R1 024 347, the VAT payable would have increased by R143 408 and trade receivables from exchange transactions would have increased by R1 167 755 as disclosed in note 14 and note 3 respectively of the financial statements.
8. The electricity service provider did not make an estimate of unmetered sales between 23 June 2011 and 30 June 2011. Had this transaction been correctly treated trade receivables from exchange transactions, as disclosed in note 3 of the financial statements, would have increased and the accumulated surplus decreased by R234 346.

Expenditure

9. I was unable to obtain supporting documents for expenditure amounting to R570 175 (2010:R640 194) as the municipality had not implemented adequate control measures to prevent and identify expenditure incurred without supporting documents. The entity's records did not permit the application of alternative procedures. Consequently, I was unable to determine the occurrence, completeness, accuracy and classification of expenditure of R570 175 (2010:R640 194) included in expenditure of R152 619 181 (2010:R162 597 880), as disclosed in the statement of financial performance.
10. Supporting documentation for trade and other payables written off against general expenditure amounting to R888 892, as disclosed in note 10 to the financial statements in the prior year could not be obtained. The municipality's records did not permit the performance of alternative procedures. Consequently, I was also unable to determine the occurrence, completeness, accuracy and classification of expenditure of R888 892 included in expenditure of R162 597 880 for the prior year, as disclosed in the statement of financial performance.
11. Supporting documentation to confirm the classification of expenditure amounting to R190 000 could not be obtained. The municipality's records did not permit the application of alternative procedures. Consequently, sufficient appropriate audit evidence as to the classification of repairs and maintenance amounting to R190 000, could not be obtained.
12. Included in debt impairment, as disclosed in note 24 of the financial statements, are bad debts written off amounting to R193 240 which related to accounts which has been written off in previous financial years. The municipality incorrectly processed transactions to these accounts during the previous and current financial years and wrote off transactions processed erroneously against these accounts, during the current financial year. The municipality's records did not permit the performance of alternative procedures. Consequently sufficient, appropriate audit evidence as to the accuracy and occurrence of debt impairment amounting to R193 240, included in note 24 of the financial statements, could not be obtained.

Trade and other payables

13. The municipality included consumer deposits relating to the electricity service provider, to a value of R407 781 in note 10 to the financial statements. An accurate and complete consumer deposit listing relating to the deposits could, however, not be obtained. The electricity service providers' records did not permit the application of alternative audit procedures. Consequently, sufficient appropriate audit evidence as to the valuation of these deposits could not be confirmed. Furthermore, the consumer deposits relating to the rotating

electricity debtor accounts were incorrectly allocated in the prior financial year to the service provider's deposit account. The impact of this on the municipality could not be quantified, as the system of the service provider could not identify the deposits of the municipality. Due to the limitations placed on the scope of the work performed relating to deposits, there were no satisfactory alternative audit procedures that I could perform to confirm the valuation and allocation, completeness, rights and obligations, and existence of consumer deposits of the prior financial year.

14. Supporting documentation for corrections amounting to R1 883 893 made to the South African Local Authorities Pension Fund payable, included under trade and other payables in note 10 to the financial statements, could not be obtained. The municipality's records did not permit the performance of alternative procedures. As a result, sufficient appropriate audit evidence regarding the occurrence and accuracy of these adjustments could not be obtained.
15. The municipality did not accrue for invoices in respect of goods and services received amounting to R5 170 569. If these invoices had been accrued the effect would have been to increase trade and other payables by R5 170 569, property, plant and equipment by R2 393 795, operating expenditure by R101 815, employee-related cost by R331, bulk purchases by R1 476 593, finance costs by R429 493 and a decrease of the VAT payable by R435 496, and the accumulated surplus by R333 046, as disclosed in note 10,8,26,25,23,17 and 14 respectively of the financial statements. The effect on unspent grants and income from grants and subsidies, as disclosed in note 13 and 20 of the financial statements, relating to these payments amounted to R2 728 923.
16. Sufficient appropriate audit evidence could not be obtained in respect of the accrual for leave amounting to R3 450 073 (2010: R3 624 104), as disclosed in the statement of financial position and notes 10 and 4 to the financial statements. This was due to inaccurate and incomplete leave records maintained for municipal staff. Furthermore, a difference amounting to R1 810 378 was noted in the prior financial year between the provision recalculated by the municipality, based on leave days available at 30 June 2010, and the leave provision as per the financial statements. In the absence of other supporting documentation and a proper system of control over accumulated leave, I was unable to perform alternative procedures.

Accounts receivable

17. For reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the existence, valuation and presentation of disclosure of receivables amounting to R31 508 855 (2010: R21 636 164) as disclosed in notes 3 to 5 to the financial statements and the statement of financial performance:
 - (a) Several debtor accounts amounting to R4 428 498 (2010:R6 371 595) were in arrears at financial year-end; however, no subsequent payments were made by these debtors for three months after year-end. Additionally, the service agreements entered into between the municipality and the debtors could not be obtained. As a result, sufficient and appropriate audit evidence regarding the existence of these debtors could not be obtained.
 - (b) Supporting documentation for the cash control account amounting to R957 339, as disclosed in note 4 to the financial statements, could not be obtained. As a result, sufficient appropriate audit evidence regarding the existence and valuation of these debtors could not be obtained.

- (c) The International accounting standard, IAS 39, *Financial instruments recognition and measurement*, states that an entity shall assess, at the end of each reporting period, whether there is any objective evidence that a financial asset or group of financial assets is impaired. A provision for the impairment amounting to R61 029 399 has been disclosed in notes 3 to 5 to the financial statements. The provision calculated was not based on the actual balance outstanding per individual debtor as the information could not be obtained from the municipality's financial system. Due to the lack of sufficient information alternative procedures could not be performed. As a result sufficient, appropriate audit evidence as to the accuracy of the provision of doubtful debt and the completeness and valuation of receivables could not be obtained.
- (d) The municipality did not make all the disclosures in terms of the International financial reporting standard, IFRS 7, *Financial instruments disclosure*, which states that an entity shall disclose by class of financial instrument information about the credit quality of financial assets that are neither past due nor impaired. The municipality did not disclose the ageing of accounts receivable per major class of revenue and per the various consumer categories. The reconciliation of the provision for doubtful debts did also not include details pertaining to debts written off during the financial year.

Employee cost

18. In terms of a court-settlement agreement reached during the previous financial year, the municipality was ordered to pay an amount equal to two months' gross salary to each of the respondents. The municipality did not maintain accurate registers to indicate how the liability in terms of the settlement agreement was discharged. Alternative procedures to reconcile the amounts owing per the settlement agreement to payment schedules prepared by the municipality did not provide sufficient evidence that the liability has been discharged. Consequently, sufficient appropriate audit evidence as to the completeness and accuracy of employee related costs and the valuation and completeness of trade and other payables, included in note 10 to the financial statements, for the current and prior financial years could not be obtained.

VAT payable

19. The electricity service provider incorrectly processed VAT transactions against the VAT payable, which did not pertain to the financial affairs of the municipality. Had this transaction been correctly treated VAT payables as disclosed in note 14 to the financial statements would have decreased by R1 266 341 and trade and other payables as disclosed in note 10 to the financial statements would have increased by the same amount.

Unspent conditional grants and receipts

20. No information and details could be obtained for unspent conditional grants amounting to R1 204 047 (2010: R1 556 428) included in note 13 to the financial statements and the revenue for government grants and subsidies amounting to R16 475 549 (2010:R32 106 294). Furthermore, the municipality did not provide accurate reconciliations of the balance of unspent grants at the beginning of the year to the balance unspent at the end of the financial year for grants and subsidies as disclosed in note 20 to the financial statements. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to gain adequate audit assurance as to the valuation, completeness and existence of unspent conditional grants and receipts as well as the occurrence, accuracy and completeness of revenue from grants and subsidies.

Inventory

21. The municipality did not conduct a water inventory count and therefore did not record and value water inventory in accordance with the SA Standards of GRAP, GRAP 12, *Inventory*, for the current and prior financial years. Due to the extent of the weaknesses alternative audit procedures regarding water inventory could not be performed. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness and valuation of inventories, as disclosed in the statement of financial position and note 2 to the financial statements.

Provisions

22. Provision has not been made for the environmental rehabilitation costs of restoring the entity's landfill sites. A provision should be made for the entity's present obligation incurred as a consequence of its past use of the landfill sites in accordance with the SA Standards of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets*. Due to a lack of adequate information, alternative procedures could not be performed to determine the value of this provision. Consequently, provisions and property, plant and equipment are understated by an unquantifiable amount.
23. Provision has not been made for long service awards as per the South African Local Government Bargaining Council collective agreement on conditions of service for the Free State division of SALGBC. A provision should be made for current service costs incurred in accordance with the International Accounting Standard, *IAS 19 Employee benefits*. Due to a lack of adequate information, alternative procedures could not be performed to determine the value of this provision. Consequently, provisions and expenditure are understated by an unquantifiable amount.

Long- term liabilities

24. I was unable to obtain loan agreements in respect of long-term liabilities amounting to R2 590 896 (2010:R2 849 553) included in long-term liabilities, as disclosed in the statement of financial position and in note 11 to the financial statements. Alternative procedures performed to obtain the agreements from external sources were also not successful. I was thus unable to obtain sufficient appropriate audit evidence as to the existence and valuation of, and the municipality's obligation in respect of, long-term liabilities.

Funds and reserves

25. According to the statement of changes in net assets prior year adjustments amounted to R1 126 862. In accordance with the SA Standards of GRAP, GRAP 3, *Accounting policies*, disclosures pertaining to the nature of the adjustment and the financial statement line items affected should be made. No disclosure has been made in the municipality's financial statements. Furthermore, supporting documentation for adjustments made against the accumulated surplus amounting to R1 136 772, could not be obtained. I was thus unable to obtain sufficient appropriate audit evidence as to the occurrence and accuracy of these adjustments. Due to the lack of supporting documentation alternative procedures could not be performed.
26. Incomplete and inaccurate journals were posted by the municipality to de-recognise finance leases for which the lease term has expired in the prior financial year. Had this transaction been correctly treated the accumulated surplus would have decreased by R795 775, property plant and equipment as disclosed in note 8 to the financial statements by

R620 096, general expenditure as disclosed in note 27 to the financial statements by R186 321 and finance costs as disclosed in note 26 to the financial statements would have increased by R10 642.

27. Included in the statement of changes in net assets are funds relating to the housing development fund amounting to R511 395. The fund showed no movement during the previous five financial years and the municipality no longer carries out activities relating to the fund. It could therefore not be established whether the fund should be maintained. Alternative procedures could not be performed in this regard. I was thus unable to obtain sufficient appropriate audit evidence to determine the existence, rights to and valuation of the fund.

Capital commitments

28. The municipality did not maintain a record of capital commitments already contracted for but not provided for, which provided particulars of all approved capital contracts, the expenditure incurred to date and the municipality's future capital commitment in respect of each contract. The municipality did also not retain records of all capital contracts awarded. A register for retention fees was also not maintained, thus the completeness and valuation of the retention payables could not be determined. Supporting documentation for capital commitments not yet contracted for and authorised could also not be submitted. In the absence of sufficient appropriate audit evidence, there were no satisfactory audit procedures that I could perform to determine the completeness, existence, valuation and obligations of capital commitments amounting to R51 061 359 (2010: R81 676 629), as disclosed in note 31 to the financial statements.

Contingent liabilities

29. The SA Standards of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets*, require that an estimate of the financial effect of a contingent liability should be disclosed. No disclosure has been made in note 32.1 to the financial statements for the contingent liability relating to disputes with former employees. As an alternative, legal confirmations were requested from the municipality's attorney's, but where not be obtained. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness, valuation and presentation and disclosure of contingent liabilities included in note 32 to the financial statements.

Irregular expenditure

30. Section 1 of the MFMA defines irregular expenditure as expenditure incurred by a municipality that is not in accordance with a requirement of this act, and which has not been condoned in terms of section 170. Irregular expenditure amounting to R 1 239 179 (2010: R832 109) was incorrectly included as irregular expenditure in note 39 to the financial statements.
31. Section 125(2)(d) of the MFMA requires the municipality to disclose particulars of irregular expenditure in the notes to the financial statements. The Preferential Procurement Policy Framework Act Regulations for the procurement of goods and services was not adhered to for expenditure amounting to R1 522 870. The expenditure was not disclosed as irregular in note 39 to the financial statements.

Distribution losses

32. Distribution losses for electricity amounting to R2 397 712 was disclosed in note 41 to the financial statements. The distribution loss calculated did not include losses for the last five

months of the financial year as accurate and complete data was not available. The entity's records did not permit the application of alternative procedures. Consequently, sufficient appropriate audit evidence as to the completeness, valuation and presentation and disclosure of the distribution losses could not be obtained.

Cash flow statement

33. I was unable to obtain sufficient appropriate audit evidence to determine whether the cash flow statement and the related notes were fairly stated. Taking into account the misstatements and scope limitations identified in the financial statements, as set out in this report, I was unable to practically quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine the accuracy, completeness and disclosure of the cash flow statement and related notes.

Opinion

34. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

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

Restatement of corresponding figures

35. As disclosed in note 18 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the 2009-10 financial year in the financial statements of the Kopanong Local Municipality at, and for the year ended, 30 June 2010.

Material losses and impairments

36. As disclosed in note 41 to the financial statements material distribution losses amounting to R9 580 579 for the sale of water and R2 397 712 for the sale of electricity was incurred.

37. As disclosed in notes 3 to 5 and note 24 to the financial statements, the provision for impairment of receivables amounted to R61 029 399 and debts written off amounted to R14 784 362 as a result of the municipality's inability to recover debtor accounts.

Financial sustainability

38. As disclosed in note 35 to the financial statements, the municipality is experiencing serious difficulties with regard to debt collection. The municipality also did not settle its debt within 30 days as required by the MFMA and is significantly dependent on the national and provincial governments for its continued sustainability. These conditions, along with other matters, point to the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern. The municipality may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

Unauthorised, irregular as well as fruitless and wasteful expenditure

39. As disclosed in notes 37 to 39 to the financial statements, unauthorised, fruitless and wasteful and irregular expenditure of R15 915 324 (2010: R58 414 061) R3 588 401 (2010:

R8 366 399) and R38 917 831 (2010: R38 237 464), respectively, was incurred. This was due to overspending on the budgeted votes, payment of interest and penalties and non-compliance with SCM policies and procedures.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on page 62 to 73 and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

40. I was unable to conduct the audit of performance against predetermined objectives as the actual performance of the municipality and its service provider for electricity was not adequately reported in the annual performance report as no reporting against predetermined objectives, indicators and targets was recorded for the current and the previous financial years in the annual performance report.

Presentation of information

41. Measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Reliability of information

42. The reported performance information was deficient in respect of the following criteria:

- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

43. The following audit findings relate to the above criteria:

The integrated development plan did not include:

- Key performance indicators determined in accordance with its performance management system, as required by sections 26(i) and 41(1) (a) of the MSA and regulation 9 of the Municipal Planning and Performance Management Regulations, 2001.
- Performance targets determined in accordance with its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.
- A financial plan which must include a budget projection for at least the next three years, as required by sections 26(h) of the MSA and regulation 2(3) of the Municipal Planning and Performance Management Regulations, 2001.

Compliance with laws and regulations

Strategic planning and performance management

44. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.

45. The accounting officer of the municipality did not, by 25 January, assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.
46. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury, as required by section 72(1)(b) of the MFMA.

Budget

47. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

48. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
49. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
50. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46 of the MSA.
51. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.

Audit committees

52. No audit committee was in place for the period 15 December 2010 to 24 March 2011, as required by section 166(1) of the MFMA.
53. The audit committee did not function as required by section 166 of the MFMA, in that:
 - the audit committee did not advise the council of the municipality on matters relating to performance evaluation
 - the audit committee did not respond to the council on any issues raised by the auditor-general in the audit report
 - the audit committee did not meet at least four times a year.
54. The performance audit committee or another committee functioning as the performance audit committee did not perform the following, as required by Municipal Planning and Performance Management Regulation 14:
 - Meet at least twice during the financial year

- Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- Review the municipality's performance management system and make recommendations in this regard to the council of the municipality
- Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

55. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.
56. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the MSA as required by Municipal Planning and Performance Management Regulation 14.
57. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators, as required by Municipal Planning and Performance Management Regulation 14.
58. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

59. Supporting documentation, to determine whether awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulation 44, could not be obtained.
60. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM regulation 17(a) and (c).
61. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulations 16(b) and 17(b).
62. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of SCM regulation 13(c).
63. Awards were made to providers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by SCM regulation 43.
64. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
65. Bid specifications were not always drafted by bid specification committees, which consisted of one or more officials of the municipality, as required by SCM regulation 27(3).

66. Final awards and recommendation of awards to the accounting officer were not always made by an adjudication committee, which consisted of at least four senior managers of the municipality, including:
- the CFO or, if the CFO is not available, another senior manager in the budget and treasury office reporting directly to the CFO and designated by the CFO
 - at least one senior SCM practitioner who is an official of the municipality
 - a technical expert in the relevant field, who is an official of the municipality, if the municipality has such an expert as per the requirements SCM regulation 29(2).
67. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
68. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).

Human resource management and compensation

69. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.
70. The municipal manager did not provide a job description for each post in the staff establishment, as required by section 66(1)(b) of the MSA.

Expenditure management

71. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
72. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which recognised expenditure when it was incurred and accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.
73. The accounting officer did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants

74. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for the municipal infrastructure grant, as required by section 11(2)(c) of DoRA.

Revenue management

75. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which recognised revenue when it is earned and accounted for debtors, as required by section 64(2)(e) of the MFMA.

Asset management

76. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which accounts for the assets of the municipality, as required by section 63(2)(a) of the MFMA.

77. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

78. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

Good governance over SCM was not effectively implemented.

Management did not adequately exercise oversight responsibility over compliance with laws and regulations as well as internal control, as key performance indicators and targets were not adequately defined and due to significant deviations in compliance with the MFMA.

Effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, was not implemented as performance of staff was not adequately measured and due to a lack of adequate staff within the IT department.

Policies and procedures to enable and support an understanding and execution of internal control objectives, processes and responsibilities were not established and implemented as significant findings were noted as a result of inadequate policies and procedures.

The municipality did not adequately monitor the implementation of action plans to address internal control deficiencies. As a result, significant non-compliance and internal control issues were noted.

The municipality did not establish an effective IT governance framework that supports and enables the business, delivers value and improves performance as inadequate policies and procedures had been developed and implemented in this regard.

Financial and performance management

Proper record keeping in respect of revenue and assets was not implemented to ensure that complete, relevant and accurate information is accessible and available to support financial reporting as supporting documentation could not always be obtained.

Controls over the daily and monthly processing and reconciling of transactions were not effectively implemented as suspense accounts were not adequately cleared at year-end and due to the fact that erroneous journal entries were passed by the municipality.

The municipality does not have reliable systems for recording and reporting on payables and expenditure, revenue and receivables and property, plant and equipment.

Formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information were not designed and implemented as there were inadequate controls relating to system access by users.

The review and monitoring of compliance with applicable laws and regulations were not effective, which resulted in significant instances of non-compliance that could have been prevented.

Effective financial and performance systems, processes and procedures and the management thereof had not been adequately implemented. This resulted in the financial statements being subject to material adjustments.

Governance

The municipality did not develop and implement an anti fraud and corruption policy. Independent channels for the communication of suspected fraud and corruption have also not been established.

The internal audit division was not adequately staffed during the financial year and also did not perform internal audit work on predetermined objectives.

The audit committee did not function throughout the financial year.

Auditor-General

Bloemfontein

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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