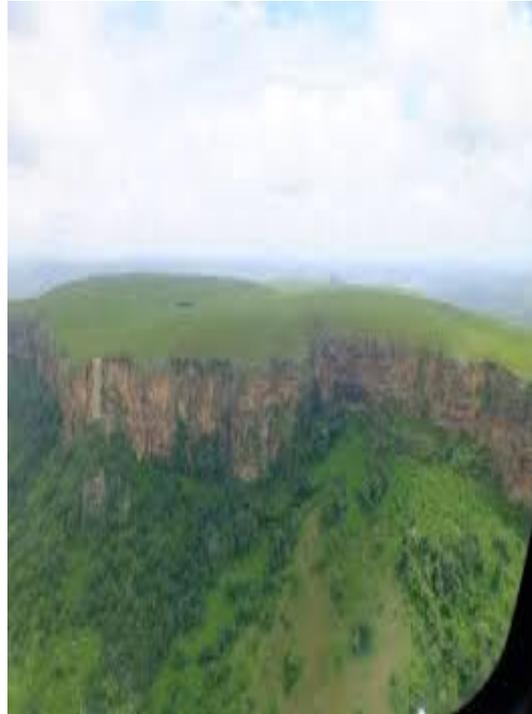


MKHAMBATHINI MUNICIPALITY

ANNUAL REPORT

2013/2014



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‘FOR THE COMMUNITY’

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LEGISLATIVE MANDATE

Section 121 of the Local Government: Municipal Finance Management Act 56 of 2003 (MFMA) stipulates that “

Every municipality and every municipality entity must for each financial year prepare an annual report in accordance with this Chapter. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality’s sole or shared control in accordance with section 129.

The purpose of an annual report is-

To provide a record of activities of the municipality or municipal entity during the financial year to which the report relates;

To provide a report on performance against the budget of the municipality or municipal entity for that financial year; and

To promote accountability to the local community for the decision made throughout the year by the municipality or municipality entity

The annual report of the municipality must include-

- The annual financial statements of the municipality, and in addition, if section 122 (2) applies, consolidated annual financial statements, as submitted to the Auditor General for audit in terms of section 126 (1);
- The Auditor General report in terms of section 126 (3) on those financial statements.
- The annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal System Act;
- The Auditor General’s audit report in terms of section 45 (b) of the Municipal Systems Act.
- An assessment by the municipality ‘s accounting officer of any arrears on municipal taxes and service charges;

- An assessment by the municipality's accounting officer of the municipality's performance against the measurable performance objectives referred to in section 17 (3) (b) for revenue collection from each revenue sources and for each vote in the municipality's approved budget for the relevant financial year;
- Particulars of any corrective action taken or to be taken in response to the issues raised in the audit reports referred to in paragraphs (b) and (d)
- Any explanation that maybe necessary to clarify issues that in connection with the financial statements;
- Any information as determined by the municipality;
- Any recommendations of the municipality's audit committee; and
- Any other information as may be prescribed.
- The annual report of a municipal entity must include-
- The annual financial statements of the entity as submitted to the Auditor General for audit in terms of section 126 (2) on those financial statements
- The Auditor General's audit report in terms of section 126 (3) on those financial statements;
- An assessment by the entity's accounting officer of any arrears on those financial statements;
- An assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms the service delivery agreement or other agreement between the entity and its parent municipality
- Particulars of any corrective action taken or to be taken in response to issues raised in the audit report referred to in paragraph (b);
- Any information as determined by the entity or its parent municipality;
- Any recommendations of the audit committee of the entity or its parent municipality; and
- Any other information as may be prescribed.”

GLOSSARY OF TERMS

AG	-	Auditor-General
BEE	-	Black Economic Empowerment
COGTA	-	Co-operative Governance and Traditional Affairs
DBSA	-	Development Bank of South Africa
DAERD	-	Department of Agriculture, Environmental Affairs and Rural Development
DME	-	Department of Minerals and Energy
DOE	-	Department of Education
DOH	-	Department of Housing
DORA	-	Division of Revenue Act
DOT	-	Department of Transport
DWAF	-	Department of Water Affairs and Forestry
EPWP	-	Extended Public Works Programme
GIS	-	Geographical Information System
HIV/AIDS Syndrome	-	Human Immunodeficiency Virus/Acquired Immunodeficiency
ICT	-	Information Communication Technology also referred to as IT
IDP	-	Integrated Development Plan
IDP RF	-	Integrated Development Plan Representative Forum
IWMP	-	Integrated Waste Management Plan
KPI	-	Key Performance Indicator
KZN	-	KwaZulu-Natal
LED	-	Local Economic Development
MEC	-	Member of the Executive Council (Local Government and Traditional Affairs)
MFMA	-	Municipal Finance Management Act No. 56 of 2003
MIG	-	Municipal Infrastructure Grant

MPAC	-	Municipal Public Accounts Committee
MTCF	-	Medium-term Capital Framework
MTEF	-	Medium-Term Expenditure Framework
MTSF	-	Medium-Term Strategic Framework
NHBRC	-	National Home Builders Registration Council
NSDP	-	National Spatial Development Perspective
NWMS	-	National Waste Management Strategy
PSEDS	-	Provincial Spatial Economic Development Strategies
PGDS	-	Provincial Growth and Development Strategy
PMS	-	Performance Management System
PIMS	-	Planning, Implementation and Management System
PMS	-	Performance Management System
PPP	-	Public-Private Partnership
RDP	-	Reconstruction and Development Programme
RSC	-	Regional Service Centre
SCOPA	-	Standing Committee on Public Accounts
SDBIP	-	Service Delivery and Budget Implementation Plan
SDP	-	Site Development Plan
SCM	-	Supply Chain Management
SMME	-	Small, Medium and Micro Enterprise
TA	-	Tribal Authority
WSB	-	Water Services Backlog

Mayors Foreword



One of the key milestones of Local Government is to ensure accountability and transparency in municipal matters and in terms of the Municipality one of those matters is to table the annual report which is a count of progress made in addressing service delivery. Whilst the role of my office has been to provide political guidance and ensuring that the Governance structures exist and are functional, it is also the mandate that is granted and contained in the Municipal Finance Management Act that I present this report to all Mkhambathini Municipalities stakeholders.

Section 127 (3) of the Local Government Municipal Finance Management Act 56 of 2004 states that, " *the Mayor of a municipality must, within seven months after the end of the financial year, table in the Municipal Council the Annual Report of the Municipality and of any Municipal Entity under the Municipality's sole or shared control*".

It is therefore my pleasure to present this Annual Report of Mkhambathini Local Municipality for the period 2013/2014 to Council, the Mkhambathini community, the National and Provincial Treasury, the Local Government and the Auditor General and other stakeholders.

Despite all challenges that the Municipality faces including the length in which it took us to fill the position of the Chief Financial Officer the municipality has managed to survive with the limited resources we had. Furthermore, the poor sources of revenue have prevented us to achieve most our set targets and also to ensure that our workforce is capacitated through training and development. This also affected our economic activities, therefore prevented us from capping high poverty and illiteracy rates as well as high exit of skilled staff to the size of the Municipality.

The Municipality has managed to maintain unqualified audit opinion with the assistance of our Financial Services Staff, and the Municipal Internal Auditors who ensured that the systems of internal control are safeguarded to prevent negative opinion from the Auditor General. Council has note the Auditor General's Comments and an action plan have been developed to assist use in ensuring that those areas which prevented the Municipality from achieve clean audit are monitored and reoccurrence are minimised.

I would like to thank Mkhambathini community for continuously believing in us. Participating in our programmes, their willingness to be part of the collective and for taking care of their assets and investments. I would also like to extend my gratitude to my fellow Councillors, the Audit Committee, Senior Management and staff for their undivided commitment to collectively participate in Council's development Agenda. We will be enhancing the participation of ward committees to ensure that we reach all corners of Mkhambathini to facilitate and fast-track service delivery.

Municipal Managers Foreword

The immense task of being in the game of Local Government Institution is to successfully balance good governance, public participation and sound financial management. Our development duties as local government are to structure and manage administration, budgeting and planning processes and give priority to the basic needs of the community and also to promote the social and economic development of the community. The municipality has strived to achieve some of the goals that the municipality sets for itself that those that are set by our government.

The main issue of concern within the Municipality has been to strengthen our financial viability and ensure growth of our revenue base. This is a daunting task indeed. While the municipality continuously billed its customers the rate of payment for services has drastically failed to match the amount billed for each month. This is our area of concern, since its perpetual occurrence will undermine our financial viability. Measures that seek to address the situation have been developed.

The concerted effort exerted in 2013/2014 has encouraged the council to excel and do more during the next financial year. I am grateful to Mkhambathini Municipal Management and staff members who have made it possible for Council to make a positive impact to local communities. Our Governance structures, the Audit Committee and our Internal Auditors have continuously encouraged us to do better through constructive criticisms.

Mr DA Pillay

Municipal

Manager

VISION

By the Year 2020 Mkhambathini will be a sustainable developmental municipality with improved quality of life for its entire people in areas of basic services, social, economic and environmental development.

MISSION STATEMENT

Mkhambathini Municipality commits itself to the following:

- Upholding our leadership vision;
- Working with integrity in an accountable manner towards the upliftment of the community;
- Protecting and enhancing the interest of our clients at all times
- Consistently performing our function with transparency honesty and dedication in dealing with clients;
- Responding promptly to the needs of our clients;
- Subscribing to the Batho Pele principles

DEVELOPMENT GOALS

The following long term development goals have been identified based on the below performance areas:

- To build an efficient and sustainable local government structure;
- To promote an equitable access to infrastructure and basic services;
- To create a condition conducive to economic development;
- To promote sustainable social and economic development;
- To create a spatial framework that facilitates an equitable distribution of development;
- To promote sustainable and integrated land use patterns.

MUNICIPAL FUNCTIONS, MANDATE, POPULATION AND ENVIRONMENTAL OVERVIEW

In terms of section 84 of the Local Government: Municipal Structures Act No. 117 of 1998, the Mkhambathini Local Municipality has the following powers and functions:

- Integrated Development Planning;
- Solid waste disposal;
- Regulation of passenger transport services;
- The establishment, conduct and control of fresh produce markets and abattoirs;
- The establishment, conduct and control of cemeteries;
- Promotion of local tourism for the area;
- The imposition and collection of taxes, levies and duties as related to the above functions;
- Municipal roads;
- Municipal public works relating to any of the above functions.

MANDATES

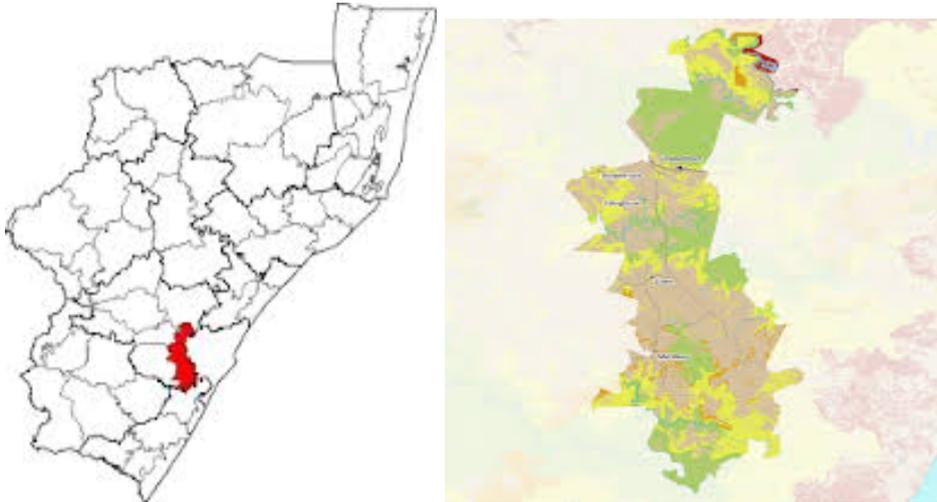
The legislative mandates exercised by the municipality in terms of the local government legislative framework are as follows:

- Local Government: Municipal Structures Act, 117 of 1998;
- Local Government: Municipal Systems Act, 32 of 2000;
- Local Government: Municipal Finance Management Act, 56 of 2003;
- Local Government: Municipal Planning and Performance Management Regulation, 2001;
- Local Government: Municipal Property Rates Act, 6 of 2004;
- Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to the Municipal Manager, 2006;
- Local Government: Development Facilitation Act;
- Local Government: Municipal Demarcation Act, 27 of 2008;
- Disaster Management Act, 57 of 2002;
- Intergovernmental Relations Framework Act, 13 of 2005;
- Remuneration of Public Office Bearers Act, 20 of 1998;
- Organised Local Government Act, 52 of 1997;

SUPPORTING MANDATE

- The Constitution of the Republic of South Africa, 1996;
- White Paper on Transforming Public Service Delivery (Batho Pele), 1997
- White Paper on Service Delivery.

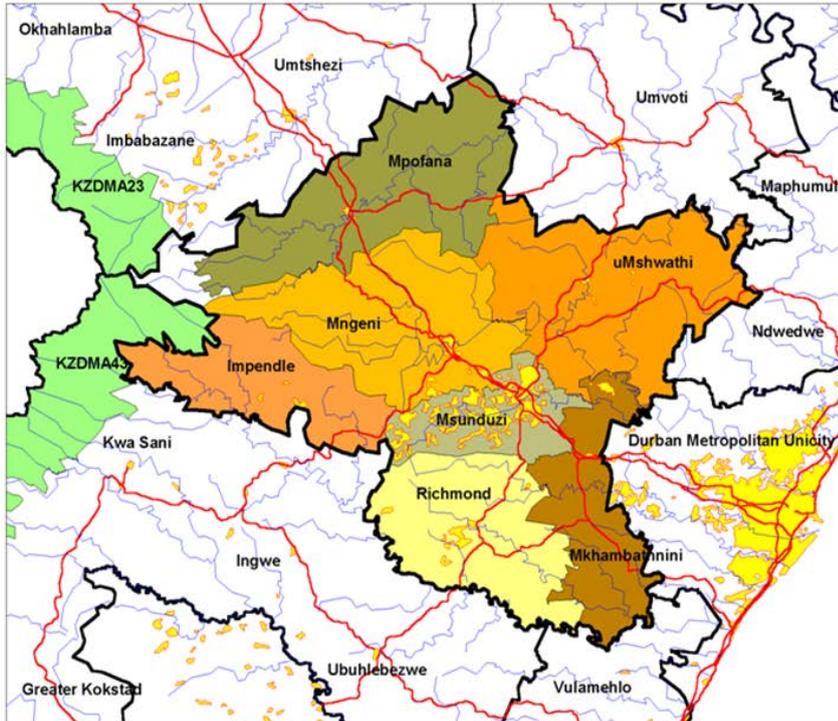
GEOGRAPHIC AND DEMOGRAPHIC PROFILE



Mkhambathini Local Municipality was established in terms of Section 155(1) (b) of the Constitution of the Republic of South Africa (1996) following the 2000 local government elections. It is one of the seven (7) category B municipalities comprising UMgungundlovu District Municipality. It shares municipal executive and legislative authority with UMgungundlovu District Municipality.

Mkhambathini Local Municipality is situated along the southern-eastern periphery of UMgungundlovu District Municipality and adjoins Richmond and Msunduzi Local Municipalities to the west, uMshwati Local Municipality to the north and Durban/eThekweni Metropolitan area to the east, the Camperdown area is only 30 minutes away from Durban's international airport and Africa's busiest harbour.

Agricultural production centres on vegetables grown for local and hinterland fresh produce markets, maize and sugar cane (processed through a mill at Eston). The area features the second highest concentration of poultry producers in the world, supported by a network of service suppliers, as well as pig and beef farming. Tourism is centred on African experiences, with attractions such as the Tala Game Reserve, Nagle Dam and Umgeni Valley



uMgungundlovu District is comprised of seven local municipal entities as reflected in the map. These include:

- KZ221 – Umshwathi
- KZ222 – Umgeni
- KZ223 – Mpofana
- KZ224 – Impendle
- KZ225 – Umsunduzi
- KZ226 – Mkhambathini
- KZ227 – Richmond

POPULATION

The total size of Mkhambathini Local Municipality population is estimated at 63 142 people. Further details pertaining to the population are reflected in the tables below:

Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7
12889	9213	6785	8720	10859	6378	8298

In terms of 2011 Census Survey, Mkhambathini Municipality has a total of 63142 people. Out of this number, statistics show that 16 260 voters were registered as at June 2012 (IEC Statistics).

Total Population within uMgungundlovu District



Municipality	Population in number	Population in %
DC22 uMgungundlovu	1 017 763	9.6% of province
KZN221 Umshwati	106 374	11% of district
KZN225 Msunduzi	618 536	61% of district
KZN222 uMngeni	92 710	9% of district
KZN223 Mpofana	38 103	4% of district
KZN224 Impendle	33 105	3% of district
KZN226 Mkhambathini	63 142	6% of district
KZN227 Richmond	65 793	5% of district

Source: *Census 2011*

Population Grouping

Population Groups	Black African %	Coloured %	Indian/Asian %	White %	Total
Census 2011	94.8%	0.3%	1.0%	3.7%	100%

Population Groupings by Age

Age by Gender - Census 2011

Age Group	Male	Female	Total Age Group
0-4	3677	3720	7397
5-9	3208	3143	6351
10-14	3174	3085	6259
15-19	3441	3306	6747
20-24	3423	3395	6818
25-29	3011	3108	6119
30-34	2186	2306	4492
35-39	1805	1969	3774
40-44	1366	1656	3022
45-49	1237	1609	2846
50-54	955	1331	2286
55-59	961	1194	2155
60-64	773	1042	1815
65-69	459	625	1084
70-74	255	528	783
75-79	152	333	486
80-89	119	305	424
85+	67	216	284
Total	30270	32872	63142

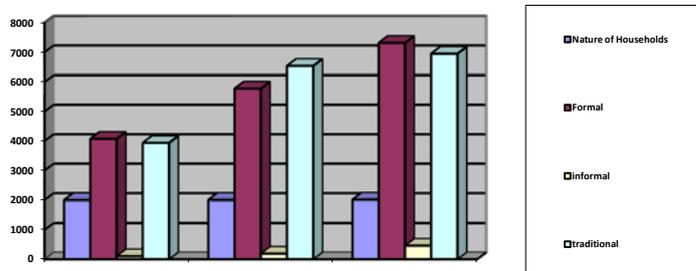
Households Census 2011

Number of Households
14964

Dwelling Type (Census 2001-2011)

	1996	2001	2011
Formal	4073	5779	7316
Informal	106	194	464
Traditional	3936	6534	6948

Graphical Household information





FINANCIAL HEALTH OVERVIEW

Table 1 : Billing Sample for June 2014

Rates Collection Billing for June 2014	
Billing	89 138 841.00
Collection	48 343 480.00
Net- Effect	40 794 930
Overall Percentage	54%

KEY CHALLENGES

KEY PERFORMANCE AREA	CHALLENGES
Institutional Transformation and Development	Loss of Skilled Employees Failure to implement the WSP Updated By-Laws
Service Delivery	Poor Infrastructure Maintenance Poor Access to Infrastructure and Services
Economic Development	High Level of Unemployment High Level of Poverty Lack of SMME Support Lack of Skills
Good Governance and Public Participation	Ineffective Ward Committees Lack of dedicated personnel to deal with Public Participation
Financial Viability	Lack of Revenue

Spatial and Environmental Management	Non Payment for Services
	Reliance on Grants
	Lack of Land Use Management System
	Lack of Land Fill Site

STATUTORY ANNUAL REPORT PROCESS

No	ACTIVITY	TIMEFRAME
1.	Consideration of next financial year's Budget and IDP process plan. Except for the legislative content, the process plan should confirm in-year reporting format to ensure that reporting and monitoring feeds seamlessly into the annual report process at the end of the budget/IDP implementation period.	July
2.	Implementation and monitoring of approved Budget and IDP commences (in-year financial reporting).	
3.	Finalise the 4 th quarter Report for the previous financial year.	
4.	Submit draft year 0 Annual Report to Internal Audit and Auditor General.	
5.	Municipal entities submit draft annual report to MM	
6.	Audit/Performance Committee consider draft annual report of municipality and entities (where relevant)	August
7.	Mayor table the unaudited annual report	
8.	Municipality submit draft annual report including consolidated annual financial statements and performance report to Auditor General.	
9.	Annual Performance Report as submitted to Auditor General to be provided as input to the IDP Analysis Phase.	
10.	Auditor General Audit Annual Report including consolidated Annual Financial Statements and Performance Data.	
11.	Municipalities receive and start to address the Auditor General's Comments	September/October
12.	Mayor tables Annual Report and audited Financial Statement to Council complete with the Auditor General's Report	November
13.	Audited Annual Report is made public and representation	

	is invited.	
14	Oversight Committee Assesses Annual Report.	
15	Council Adopts Oversight Report	
16.	Oversight Report is Made Public	December
17.	Oversight Report is submitted to relevant provincial treasury	
18	Commencement of draft Budget/IDP finalisation for the next financial year. Annual Report and Oversight Reports to be used as input	January

CHAPTER 2 : GOVERNANCE



In order to promote accountability to the local community for the decisions made throughout the year by the municipality as per Section 121 (2)(c) of the Municipal Finance management Act read in conjunction with the Section 18(1)(d) of the Municipal Systems Act, the Municipality has to ensure that the relevant governance structures exist and are functional. Both the political and administrative structures of Municipality need to be fully capacitated in terms of numbers and of skills. In drafting this Annual Report, the intention is not only to comply with relevant legislation but to promote accountability for the decisions that Council undertook in the financial year 2013/14. Critical to appropriate decision making are mandatory committees that each Council should establish to ensure that the nine characteristics of good governance are adhered to namely: Participation, Rule of Law, Transparency, Responsiveness, Consensus Oriented, Equity & Inclusiveness; Effectiveness and efficiency, Accountability as well as Sustainability. The focus of this Chapter is on Governance Structures, Intergovernmental Relations, Public Accountability & Participation as well as Corporate Governance.

GOVERNANCE STRUCTURES

POLITICAL GOVERNANCE

In terms of the Municipal Structures Act, the Municipality established the following political governance structures.

Executive Committee

The Executive Committee (EXCO) consist of four members, representative of three political parties. The EXCO is the principal structure that governs the municipal operations an as such, convenes on a monthly basis. The EXCO makes recommendations to Council emanating from discussions made to Council Committees level.

Council

In terms of Section 152 of the Constitution, the Council has convened to ensure the adoption of the IDP/Budget and PMS Process. The IDP, Budget, Organisational Scorecard, SDBIP, Performance Management related reports and other service delivery related deliberations.

Portfolio Committees

The establishment of portfolio committees is in line with Section 79 of the Municipal Structures Act No 117 of 1998.

Municipal Public Accounts Committee

The Municipal Public Accounts Committee (MPAC) is a structure that is responsible for exercising oversight on both the executive and administration. During the year under review, the MPAC was not fully operational due to the non co-ordinated efforts to ensure its functionality.

Mkhambathini is a category B Municipality in terms of the Structures Act, comprising of 7 wards. In terms of seats allocation summary per municipality received from the Municipal Electoral Officer in May 2011, the names of the Elected parties and the number of the respective councillors elected were as follows:

There are four portfolio committees appointed by Council. These committees are aligning to the functions of various departments of the Municipality;

- Budget & Treasury Portfolio Committee : Chief Financial Officer
- Corporate Services Portfolio Committee : Manager: Corporate Services
- Technical Portfolio Committee : Manager: Technical Services
- Community Services Portfolio Committee : Manager: Community Services

There are other forums and committees that are operational in the Municipality and those committees and forums are the following;

- Local Labour Forum;
- Integrated Development Plan Representative Forum;
- Oversight Committee (MPAC)

Mayor Cllr T Maphumulo



The Mayor is tasked with the identification and prioritisation of community needs, drafting strategies to deliver those needs and to oversee the delivery of services by the Municipality's administration, whilst ensuring that municipal finances are in good order and the risk factors are minimised.

Speaker of Council



The Speaker is the Chairperson of Council Presiding over Council Meetings in Accordance with Council's Standing Rules.



The party-political and demographic representation of Councillors is reflected in the table below:

POLITICAL PARTY	ALLOCATION OF SEATS	GENDER DISTRIBUTION	
		MALE	FEMALE
African National Congress	9	8	1
Democratic Alliance	1	1	0
Inkatha Freedom Party	3	3	0
National Freedom Party	1	0	1
TOTAL	14	12	2

COUNCILLORS

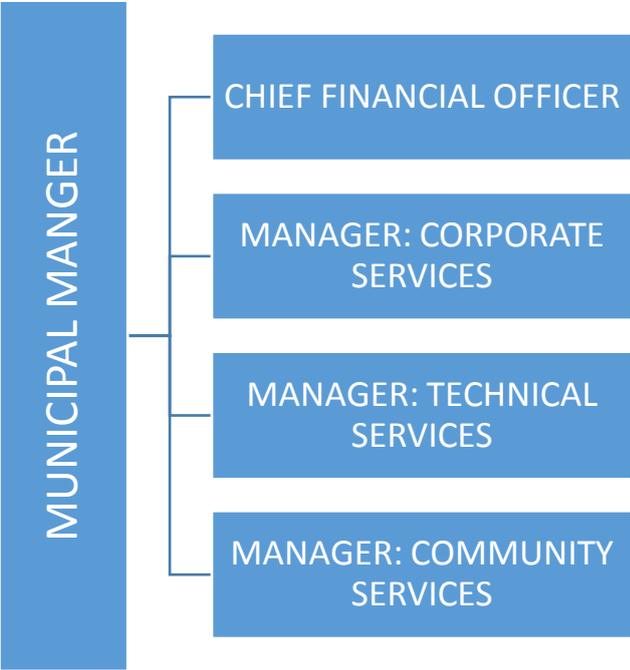
Cllr.M Nene	Exco Member/ EDP Chairperson
Cllr.N Zondo	EDP Member
Cllr.HS Mtetwa	HR/ SCOPA Member
Cllr.R N Lembethe	SCOPA Chairperson
Cllr.T A Gwala	SCOPA Member
Cllr. MM Magubane	Finance Member
Cllr.MR Ntuli	Finance Member
Cllr.MM Lembethe	HR / SCOPA Member
Cllr.M Ngcongco	SCOPA Member
Cllr.TZ Maphumulo	EDP Member
Cllr FP Msomi	SCOPA Member

ADMINISTRATIVE GOVERNANCE STRCUTURES

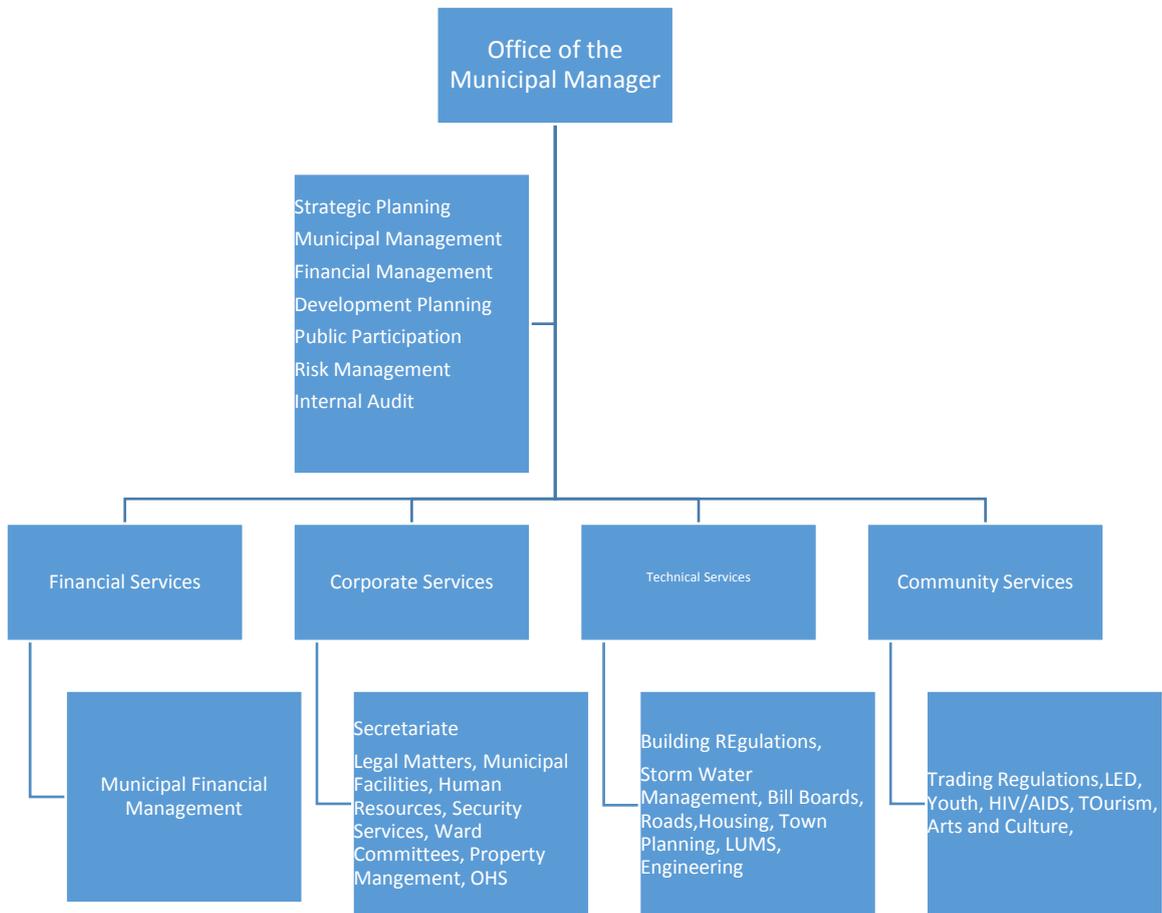
MUNICIPAL MANAGER

Mr D Pillay

The Municipal Manager is the accounting officer of the Municipality, providing leadership on issues of governance. The Municipal manager heads the Municipal Governance and is a Chairperson of Management Committee. He is responsible for the day-to-day management and administration of the Municipality. The Municipal Manager Operates in terms of the relevant section in the Municipal Structures Act, Municipal Systems Act and the Municipal Finance Management Act. In discharging his responsibilities in the 2013/2014 financial year, the Municipal Manager was assisted by the Management Team, as represented in the diagram below:



Powers and Functions



Staff Compliments as at 30 June 2014

Department	Number of Filled Positions	No of Vacant Position
Office of the Municipal Manager	8	1
Corporate Services	15	7
Financial Services	10	8
Technical Services	23	5
Community Services	26	7

INTERGOVERNMENTAL RELATIONS

The inter-governmental Relations Framework Act (Act No 13 of 2005), requires that all sphere of government coordinate, communicate, align and integrate service delivery effectively, and to ensure access to services. In this regard Mkhambathini Municipality complies with this provision. uMkhambathini Municipality further participate in the Provincial and District Forums.

These forums provide a platform for engagement on the approval of projects and for coordination and monitoring of expenditure of funded projects.

PUBLIC PARTICIPATION

The Service Delivery and Budget Implementation Plan (SDBIP) is made public and published on the municipal website. This contains projected financial and service delivery Indicators and deliverables. Members of the public are also invited to participate in the Oversight process related to the Annual Report.

In the promotion of public accountability and participation members of the public are invited to attend all meetings of the Council and its committees.

Another mechanism of public participation is conducted through Mayoral Budget and Integrated Development Plan (IDP) izimbizo. These are held prior to developing the draft budget in order to provide feedback to the community on the implementation of projects in the current financial year.

IDP Participation and Alignment Criteria*	Yes/No
Does the municipality have impact, outcome, input, output indicators?	No
Does the IDP have priorities, objectives, KPIs, development strategies?	Yes
Does the IDP have multi-year targets?	Yes
Are the above aligned and can they calculate into a score?	Yes
Does the budget align directly to the KPIs in the strategic plan?	Yes
Do the IDP KPIs align to the Section 57 Managers	Yes
Do the IDP KPIs lead to functional area KPIs as per the SDBIP?	Yes
Do the IDP KPIs align with the provincial KPIs on the 12 Outcomes	Yes
Were the indicators communicated to the public?	yes
Were the four quarter aligned reports submitted within stipulated time frames?	yes
* Section 26 Municipal Systems Act 2000	



CORPORATE GOVERNANCE

In general, corporate governance is perceived as a normative principle of administrative law, which obliges any institution to perform its functions in a manner that promotes the values of efficiency, non-corrupibility, and responsiveness to civil society. The principle of good governance has also been espoused in the context of the internal operations of both the public and private sector organisations. In this way, corporate decision-making strategies integrate the principle of good governance and ensure that public interests and employees are taken into account.

RISK MANAGEMENT

Section 62 (i) of the MFMA required that the municipality have and maintain an effective, efficient and transparent system of risk management. The Municipality undertook to implement and comply with this section and this resulted in the development of the Risk Action Plan through a workshop which was held near the end of the financial year 2011/12 with the assistance of Internal Audit Activity. A risk register was compiled and approved by the Audit and Performance Management Committee. Furthermore a Risk Management Strategy was developed, however due to the absence of the Risk Officer the municipality was not in the position to monitor and implement actions that were agreed to during the workshop.

To 5 Risks

- Inability to attract Investments.
- Inability to attract and retain skills personnel.
- High Number of indigent families.
- High Number of unemployed Youth.

- Inability to maintain municipal infrastructure.

ANTI-CORRUPTION AND FRAUD

The Municipality is committed to a free corruption and fraud environment. The municipality has developed the Anti-fraud policy to guide the municipality on matters pertaining to fraud, the development of the policy document is an illustration that the Municipality does not tolerate fraudulent or corrupt activities whether internal or external to the Municipality. The Internal Audit Activity assisted in communicating the policy and workshops were conducted.

The Municipality believes that if we are honest and open in our everyday dealings and communications with other people, if we fulfil our commitment at all times and practice trust, tolerance and respect, only then can we achieve dignity and integrity. Every day of our lives we are faced with choices and easy options that are filled with promises of wealth. Make sure our heart and our head agree on the honest choice, however difficult it may be. Remember it is the nature of our environments, which is tempting. We need to take responsibility for our choices. It is becoming increasingly difficult to stay honest and open, especially in light of the ever-changing environment around us. Our only obligation in life is to be true to ourselves and our commitments. In the long run we will achieve more in life than those who sold out their principles for the short-term gain.

We expect people to trust us, and therefore it is up to us to give them the reasons to trust us. Our reputation of today will be based on our actions of the past. Our actions today are the building blocks of our future reputation.

People at our Municipality hold dearly specific rich and positive values. Therefore, our employees' commitment to these values is the only single weapon against corruption and fraud.

SUPPLY CHAIN

The Municipality has established a Supply Chain Unit in line with the internal Supply Chain Management (SCM) Policy and Supply Chain Management Regulations. The division is headed by the Accountant who reports directly to the Chief Financial Officer.

The Municipality has a policy on SCM which has been implemented fully throughout the year. There were not indicators of abuse in the implementation of the SCM policy of the municipality during the year under review.

The calling for tenders to secure supplies of goods and services is an integral part of SCM, as legislation compels public institutions to procure goods and services through this process. A thorough knowledge of the different phases of the tendering process and the accompanying

procedures is therefore necessary to ensure that public officials procure goods and services timely and according to their requirements.

In line with the Municipal Finance Management Act (MFMA), the Accounting Officer has approved the Bid Committees. The Municipality ensures that the tender process is fair, Transparent, equitable and cost effective.

Municipal Website

Municipal Website : Content and Currency of Material

Documents Published on the Municipal's/Entities Website

Current Annual and Adjusted Budgets and All Budget Related Documents	Yes
--	-----

All Current Budget Related Policies	Yes
-------------------------------------	-----

The Previous Annual Report (Year 1)	Yes
-------------------------------------	-----

The Current Performance Agreements required in terms of Section 57 (1) (B) of the MSA and resulting scorecards	Yes
--	-----

All Service Delivery Agreements

All Long Term- Borrowings	N/A
---------------------------	-----

All Supply Chain Management Contract Above a prescribed Value	Yes
---	-----

An information statement containing a list of Assets over a prescribed value that have been disposed of in terms of Section 14 (2) or (4)	N/A
---	-----

Contracts Agreed on to which subsection (1) of section 33 apply, subject to subsection (3) of that section	
--	--

Public Private Partnership agreements referred to in section 120	N/A
--	-----

All quarterly reports tabled in the council in terms of section 52 (d)	Yes
--	-----

CHAPTER 3: SERVICE DELIVERY

WATER PROVISION

The provision of water has been a key priority for government since the advent of democracy. Mkhambathini Municipality acknowledges that water challenges still persist in some areas, Ward 1, 2 and 3 approximately 29 264 people are affected by the water challenges around those areas. The most challenge the municipality faces is ageing and mal-functional infrastructure which is compounded by vandalism poses a serious problem and also the escalating of the population based on the water skim.

The Mkhambathini Municipality has seen it imperative to work collaborately with uMgungundlovu District Municipality, who at present is handling the services of water and sanitation for our municipality, in addressing the issue of water and sanitation in the municipality. It is in the plan of the Municipality to at least have the majority of households having water accessible inside their dwelling houses or inside the yard as much as possible. Crucial to achieving this will be the establishment of more dandified settlements in wards 1, 2 and 3 hence bridging the divide in the economies of scale.

Water Facilities

The table below indicates an improvement in the service delivery of water within the municipality. *Water Source*

	Census 1996	Census 2001	Census 2011
In dwelling/yard	3560	5722	7910
On communal stand	725	1640	2015
Access to piped water	3621	5189	5039

WASTE WATER (SANITATION) PROVISION

Toilet Facilities

Toilet Facilities	Census 1996	Census 2001	Census 2011
Flush toilet (connected to sewerage system)	1260	3907	4820
Pit latrine with ventilation (VIP)	4820	4970	10170
Bucket latrine	77	101	88
None	92031	2572	1108

ELECTRICITY

There has been a substantial improvement in the percentages of households that use electricity for the following table depicts the results of the recently conducted 2011 Community Survey (See Table Below):

Table 10: Energy / Fuel for Lighting, heating and cooking

Energy / Fuel	Census 1996	Census 2001	Census 2011
Lighting	2578	5329	9758
Heating	1484	2553	6441
Cooking	1734	3021	7767

WASTE MANAGEMENT

Refuse disposal is critical in creating an enabling environment for every resident of the municipality, more especially the younger generation as they are more exposed to hazardous conditions. The Municipality has improved the collection of refuse within its jurisdiction comparing the Census 1996, 2001 and the 2011 Community Survey.

Waste Management	Census 1996	Census 2001	Census 2011
Removed by Local Authority /Private Company	325	671	1057
Communal /Own Refuse Dump	6926	9700	12189
No Rubbish disposal	818	2179	1541

The following Project were funded through MIG and its progress is reported hereunder.

PROJECT NAME	AREA	BUDGET	STATUS
Upgrade of Mahleka Sports Field	Ward 4		Completed
Mpekula Hall	Ward 7		Completed
Nkanyezini Taxi Rank	Ward 3		Completed
Thokozani Creche	Ward 1		Completed
Qhangeshe Gravel Road	Ward 5		Completed
Kalubhaqwa Gravel Road	Ward 6		98% Complete
Maqonqo Sports Field	Ward 1		95% Complete
Nkanyezini Gravel Road	Ward 2		Completed

Low Cost Subsidised Rural Hosing

Name of the Project	Area	Total Cost
Maqonqo Housing Project	Ward 1	
Mbambangalo Housing Project	Ward 1,2,3	R500 000 000.00
KwaMahleka Housing Project	Ward 5	
Njobokazi Housing Project	Ward 4	
Sukuma Sakhe Project	Ward 7	

Challenges

- Housing project blocked because of land issues;
- Small Basic Infrastructure Grant take long to complete the project
- Sector Department not getting enough grant funding i.e ESKOM not able to upgrade substations;
- Non availability of land for fire station as the land is privately owned;
- Lack of Funding to acquire SANRAL land for Civic center at Ward for CoGTA intervention required;
- Vehicle and Driver's testing center funding for ward 4 (R15m);
- Lion Park housing development needs Department of Land Reform to Assist with regularisation;
- Lack of Funds to have access roads-urban and rural areas in all wards.
-

PLANNING AND DEVELOPMENT

The Municipality has entered into a shared service in terms of Planning and Development uMngeni Municipality is a leading partner in this regard. However the municipality is planning to capacitate this section to assist with all administrative related issues.

LOCAL ECONOMIC DEVELOPMENT

Local Economic Development (LED) offers local government, the private sector, the not-for-profit sector and the local community the opportunity to work together to improve the local economy. It aims to enhance competitiveness and thus encourage sustainable growth that is inclusive. The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. Mkhambathini Municipality has a few of LED projects in function, challenge targeting the market, the Municipality has partnered with SEDA for assistance in this instance. Co-operative and LED projects are been implemented at ward level.

As Mkhambathini Municipality we pursue LED strategies for the benefit of our jurisdiction, and individual communities and areas within our jurisdiction also pursue LED strategies to improve their economic competitiveness. Such approaches are most successful if pursued in partnership with local government strategies. Local communities respond to their LED needs in many ways, and a variety of approaches that Mkhambathini Municipality under takes that include:

- Ensuring that the local investment climate is functional for local businesses;
- Supporting small and medium sized enterprises;
- Encouraging the formation of new enterprises;
- Attracting external investment (nationally and internationally);
- Investing in physical (hard) infrastructure;
- Investing in soft infrastructure (educational and workforce development, institutional support systems and regulatory issues);
- Supporting the growth of particular clusters of businesses;
- Targeting particular parts of the city for regeneration or growth (areas based initiatives);
- Supporting informal and newly emerging businesses;
- Targeting certain disadvantaged groups.

Tourism

Local tourism” is defined as a function of municipalities within the Constitution. Municipalities have a responsibility to exercise the developmental mandate across all functions delivered at local level including the development and marketing of the tourism sector.

The tourism sector is starting to play a pivotal role in the provision of employment and economic growth. There have been a number of agric-tourism related applications submitted to the municipality and have been encouraging for the future economic growth of the municipality within the agricultural sector. The Spatial Development Framework has in this regard taken consideration of the tourism potential within the municipality and identified nodes that will promote the sector.

The municipality has a number of cultural, historical and natural assets, which have begun to form the basis of an emergent tourism industry. The main features of the existing tourism sector are:

Eco-tourism: Private Game ranches offering up-market accommodation and wildlife trails for Local and International visitors (including Tala Game Reserve, Ntsingisi Game Lodge and Spa and Gwa Humbe Game Reserve) and wildlife sanctuaries (African Bird of Prey Centre, the Lion Park and Natal Zoological Gardens).

Agro-tourism: The Country Capers Tourism Route comprises several auto routes that meander through the municipality, linking it to adjacent areas (Thornville, Baynesfield, Richmond, Ashburton, Byre Valley and Inchanga) and other tourism routes (Albert falls Amble and 1000 Hills Tourism) offering farm style, self-catering, bed and breakfast and guest lodge accommodation, scenic views and peaceful retreats.

Adventure Tourism: The area is host to a number of adventure and sporting activities including off-road motorcycle and car races, canoeing events on Nagle Dam, mountain bike races (cycling), microlighting, skydiving, waterskiing and hiking trails. Not to mention the Comrades Marathon and aMashovashova cycle race which also pass through the area. All of which bring National and International visitors to the area.

Tourism attractions are generally located close to the main roads traversing the municipality. Ownership of the tourism industry tends to be highly concentrated with little involvement by rural communities. Participants at community workshops called for the exploitation of undeveloped tourism potential in the municipality, their involvement in tourism development and related income-generating opportunities, as well as the need for education about the benefits and obligations of tourism.

Over 60% of the total land area of the municipality is covered by natural forest, shrub and bush-land and much is in good condition, and this represents a significant opportunity for the further development of eco-tourism in the municipality. In response to the natural assets and the absence of a large-scale game reserve in the area, the development of the Mkhambathini Game Reserve has been proposed for the area to the north of the N3 between Cato Ridge and Pietermaritzburg, and it will form the primary attraction along the envisaged Tourism Corridor between Durban and Pietermaritzburg.

The draft KwaZulu-Natal Tourism Development Strategy has given its support to the Mkhambathini Game Reserve, This attraction in the municipality will form part of the broader Durban-Pietermaritzburg Tourism Corridor, and be directly linked to the primary tourism node of the Valley of a Thousand Hills. Given that the R603 is already an important route to and from the South Coast, additional tourism developments along this route should be established to attract holidaymakers who pass through the area.

Mkhambathini Municipality has developed its Tourism Strategic Development Plan. Part of the plan is to develop a marketing strategy as a means to promote Mkhambathini Municipality’s as a unique differentiated brand and one of the preferred travel destinations in KwaZulu Natal. Mkhambathini Tourism Association and Mkhambathini Tourism Forum have been formed as a requirement and their core roles and responsibilities of this local organization are as follows:

- Support and coordinate the branding of designated products region
- Assist in TKZN in national campaigns by providing marketable products, events and attractions for these campaigns,
- Assist TKZN in international marketing providing product information
- Promote tourism awareness in localised areas
- Provide tourism infrastructure in localised area
- Facilitate private sector involvement in the marketing and development effort
- Facilitate local product development
- Provide tourism information and publicity.

Mkhambathini Municipality has unique destinations which combine the best of nature and agriculture environments. The diversity of facilities provides entertaining activities for the entire family. Key areas are as follows:

- Tala Valley
- Lion Park and Zoo
- African Bird of Prey Sanctuary
- Nagle Dam
- Table Mountain (natural area
- Rosie Antique barn
- Hot air Balloon in Tala Valley
- Guahumbe Game Reserve
- Emoyeni Micro lighting
- Wingfield Nature Reserve

There are private game ranches offering up market and wildlife trails (Tala, Gwahumbe Game Reserve and Spa, iNsingizi Lodge). Agro- Tourism: Sakabula circuit motor routes to country attractions such as fresh produce, clothing, farm stalls, Valley of a Thousand Hills and accommodation.

- John Vander Plank Gravesite
- Anglican Church of Resurrection
- Methodist Church

SPORT AND RECREATION

The below indicates the availability of recreational facilities, although some Wards are still without. Most of the available facilities require significant upgrading and revamping in order to fully benefit in sports, arts and cultural aspect of the municipality. The aim of Sports and Recreation is to improve the quality of all South Africans by promoting participation in sports and recreation in the country, and through participation of South African sportspersons and teams in international sporting events.



The above statement encapsulates the overall South African picture in terms of sports and recreation but it is at municipal level where everything has to be planned accordingly to fully utilize the talent at international level. To this end, the Mkhambathini Municipality has a number of interventions that assist in fully capitalising on this aspect of the community. The municipality has had a great impact in the province in the performing arts and would require the municipality to invest in this aspect.

CHAPTER 4 : ORGANISATIONAL DEVELOPMENT AND PERFORMANCE

The MSA 200 S67 requires the municipalities to develop and adopt appropriate systems and procedures to ensure efficient, effective and transparent personnel administration in accordance with the Employment Equity Act 1998

CHAPTER 5: REPORT OF THE AUDITOR GENERAL

REPORT OF THE AUDITOR -GENERAL TO THE KWAZULU NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON MKHAMBATHINI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Mkhambathini Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is 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. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mkhambathini Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Significant uncertainties

8. With reference to note 26 to the financial statements, the municipality is the defendant in different lawsuits. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 30 June 2014 in the financial statements of the Mkhambathini Municipality at, and for the year ended, 30 June 2014.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected objective presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Social development services on pages x to x
 - Basic service and infrastructure on pages x to x
 - Local economic development on pages x to x
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPPI).

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. The material findings in respect of the selected objectives are as follows:

Social development services

Usefulness of reported performance information Consistency of objectives, indicators and targets

Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets

18. Section 4(1)(c) of the Municipal Systems Act (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to a lack of, or limited, review/monitoring of the completeness of reporting documents by management.

Reliability of reported performance information Validity, accuracy and completeness

19. FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 43% of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.

Basic service and infrastructure

Usefulness of reported performance information Consistency of objectives, indicators and targets

Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets

20. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to a lack of, or limited, review/monitoring of the completeness of reporting documents by management.

Reliability of reported performance information

21. I did not raise any material findings on the reliability of the reported performance information for the selected objective.

Localeconomic development Usefulness of Information

Consistency of objectives, indicators and targets

Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets

22. Section 4"1(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives / indicators / targets were not consistent with those in the approved integrated development plan. This was due to a lack of, or limited, review/monitoring of the completeness of reporting documents by management.

Reliability of Information

Validity / Accuracy / Completeness

23. The FMPPI requires auditee's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 63% of the targets or significantly important targets to assess the reliability of the reported performance information. The Auditee's records did not permit the application of alternative audit procedures.

Additional Matter

24. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of Planned Targets

25. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs x to xx of this report.

Unaudited Supplementary Schedules

26. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

Compliance with Legislation

27. I performed procedures to obtain evidence that the municipality has complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation as set out in the general notice issued in terms of the PAA are as follows:

Annual Financial Statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of property plant and equipment, contingent liabilities and prior period error identified by the auditors in the submitted financial statement were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Procurement and Contract Management

29. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
30. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
31. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
32. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112U) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
33. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
34. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a)

Internal Control

35. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

36. Vacancies in Key positions in the finance department negatively impacted on the oversight and monitoring functions that are the responsibility of leadership and management. This has also impacted on the credibility of the information and reports provided to leadership for oversight and decision-making.

Financial and Performance Management

37. There was inadequate supervision and monitoring of the financial management and performance management functions of the municipality, resulting in the system of financial and internal controls not preventing, detecting and correcting non-compliance and material misstatement in the financial statements and performance management.

Auditor-General
Pietermaritzburg

28 November 2014



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence



**Mkhambathini Municipality
Annual Financial Statements
for the year ended 30 June 2014**

General Information

Legal form of entity	Municipality
Executive committee	
Mayor	Cllr.T.E. Maphumulo(Mayor) Cllr C.T. Mkhize (Deputy Mayor) Cllr. E. Ngcongco (Speaker)
Councillors	Cllr. T.A. Gwala Cllr. M. Nene Cllr. M.R. Ntuli Cllr. F. P. Msomi Cllr. M.M. Lembethe Cllr. N. Zondo Cllr. R.N. Lembethe Cllr. M.A. Ngcongco Cllr. M.M.M. Magubane Cllr. H.S. Mthethwa
Grading of local authority	Grade 2
Accounting Officer	Mr. D.A. Pillay 031 785 9307
Chief Finance Officer (CFO)	Mrs. P.R. Mthiyane (Acting) 031 785 9320
Municipal Website	www.mkhambathini.gov.za
Business address	18 Old Main Road Camperdown 3720
Postal address	Private Bag X04 Camperdown 3720
Contact number	031 785 9300
Auditors	Auditor-General
Name of Account Holder	Mkhambathini Municipality
Bank	Standard Bank
Account Number	052 1499 78

Index

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

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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 were 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) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places 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 endeavors to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to June 30, 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 40 which have been prepared on the going concern basis, were approved by the accounting officer on 30 August, 2014 and were signed on its behalf of the municipality:

Accounting Officer
D.A. Pillay

Accounting Officer's Report

The Accounting Officer submits his report for the year ended 30 June 2014.

1. Subsequent events

The Accounting Officer is not aware of any matter or circumstance arising since the end of the financial year.

2. Accounting Officer

The Accounting Officer of the municipality during the year and to the date of this report is as follows: Name

Devan Pillay

Nationality
South African

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	6	439 984	556 177
Receivables from non-exchange transactions		11 673	-
VAT receivable	7	931 385	2 047 079
Consumer debtors	8	3 455 667	2 895 113
Cash and cash equivalents	9	5 571 191	18 263 453
		10 409 900	23 761 822
Non-Current Assets			
Investment property	3	1 158 000	1 158 000
Property, plant and equipment	4	79 365 595	64 317 784
Intangible assets	5	72 132	96 175
		80 595 727	65 571 959
Total Assets		91 005 627	89 333 781
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	3 517 969	3 583 266
Unspent conditional grants and receipts	11	3 619 718	9 946 578
Provisions	12	1 625 158	1 196 014
		8 762 845	14 725 858
Non-Current Liabilities			
Provisions	12	1 865 028	1 328 796
Total Liabilities		10 627 873	16 054 654
Net Assets		80 377 754	73 279 127
Net Assets			
Revaluation reserve	10	13 672 554	14 329 907
Accumulated surplus		66 705 200	58 949 220
Total Net Assets		80 377 754	73 279 127

Statement of Financial Performance

Figures in Rand

	Note(s)	2014	2013 Restated*
Revenue			
Licences and permits		3 542 510	3 182 723
Commissions received - Insurance Premiums		10 875	8 656
Donation Income		49 794	-
Other income	16	276 795	361 844
Interest received from Bank		913 367	1 079 886
Property rates	14	7 038 480	6 722 465
Government grants & subsidies	15	48 931 984	46 451 280
Fines		34 340	34 300
Total revenue		60 798 145	57 841 154
Expenditure			
Employee Related Cost	18	(20 059 227)	(17 523 672)
Remuneration of councillors	19	(4 122 707)	(3 869 385)
Contributions to Medical Aid and Long Service Awards		(554 711)	(1 328 796)
Depreciation and amortisation		(4 039 173)	(3 546 528)
Impairment loss/ Reversal of impairments		-	(25 239)
Finance costs		(117 055)	(106 983)
Debt impairment		(1 765 002)	(601 568)
Collection costs		(34 414)	(173 724)
Repairs and maintenance		(583 631)	(1 040 825)
Contracted services		(35 181)	(286 173)
Grants and subsidies Expenditure		(8 912 807)	(7 196 562)
General Expenses	17	(12 685 797)	(10 512 289)
Total expenditure		(52 909 705)	(46 211 744)
Operating surplus		7 888 440	11 629 410
Surplus for the year		7 888 440	11 629 410

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2012	14 986 809	47 319 810	62 306 619
Changes in net assets			
Surplus for the year	-	11 629 410	11 629 410
Adjustment	(656 902)	-	(656 902)
Total changes	(656 902)	11 629 410	10 972 508
Restated* Balance at 01 July 2013	14 329 907	58 949 220	73 279 127
Changes in net assets			
Surplus for the year	-	7 888 440	7 888 440
Transfer of Depreciation on revalued assets	(657 353)	657 353	-
Other Adjustments	-	(789 813)	(789 813)
Total changes	(657 353)	7 755 980	7 098 627
Balance at 30 June 2014	13 672 554	66 705 200	80 377 754

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Taxation		9 359 455	7 758 640
Sale of goods and services		438 203	11 279 646
Grants		42 605 124	39 778 964
Interest Recieved - Investment		913 367	1 079 886
		<u>53 316 149</u>	<u>59 897 136</u>
Payments			
Employee costs		(20 059 227)	(17 523 672)
Cash paid to suppliers		(26 763 336)	(22 467 501)
Finance costs		(117 055)	(106 983)
		<u>(46 939 618)</u>	<u>(40 098 156)</u>
Net cash flows from operating activities	24	6 376 531	19 798 980
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(19 068 793)	(12 346 927)
Other cash item		-	(21 870)
Net cash flows from investing activities		(19 068 793)	(12 368 797)
Cash flows from financing activities			
Other cash item		-	1 343
Net increase/(decrease) in cash and cash equivalents		(12 692 262)	7 431 526
Cash and cash equivalents at the beginning of the year		18 263 453	10 831 927
Cash and cash equivalents at the end of the year	9	5 571 191	18 263 453

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Licences and permits	3 127 000	80 000	3 207 000	3 542 510	335 510	See (a) below
Commissions received	-	-	-	10 875	10 875	See (b) below
Donation Income	-	-	-	49 794	49 794	See (c) below
Other income	376 233	91 000	467 233	276 795	(190 438)	See (d) below
Interest received	730 378	56 000	786 378	913 367	126 989	See (e) below
Total revenue from exchange transactions	4 233 611	227 000	4 460 611	4 793 341	332 730	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	6 522 000	-	6 522 000	7 038 480	516 480	See (f) below
Government grants & subsidies	35 637 000	1 139 000	36 776 000	48 931 984	12 155 984	See (g) below
Transfer revenue						
Fines	84 800	-	84 800	34 340	(50 460)	See (h) below
Total revenue from non-exchange transactions	42 243 800	1 139 000	43 382 800	56 004 804	12 622 004	
Total revenue		46 477 411	1 366 000	47 843 411	60 798 145	12 954 734
Expenditure						
Personnel	(17 039 000)	-	(17 039 000)	(20 059 227)	(3 020 227)	See (i) below
Remuneration of councillors	(4 101 000)	-	(4 101 000)	(4 122 707)	(21 707)	See (j) below
Contribution to Medical Aid and Long Service Awards	(600 000)	-	(600 000)	(554 711)	45 289	See (k) below
Depreciation and amortisation	(2 237 000)	-	(2 237 000)	(4 039 173)	(1 802 173)	See (l) below
Finance costs	-	(120 000)	(120 000)	(117 055)	2 945	See (m) below
Debt impairment	(1 000 000)	-	(1 000 000)	(1 765 002)	(765 002)	See (n) below
Collection costs	(40 000)	-	(40 000)	(34 414)	5 586	See (o) below
Repairs and maintenance	(2 506 900)	-	(2 506 900)	(583 631)	1 923 269	See (p) below
Contracted Services	(50 000)	(70 000)	(120 000)	(35 181)	84 819	See (q) below
Grants and subsidies - Operational	(9 000 000)	-	(9 000 000)	(8 912 807)	87 193	See (r) below
General Expenses	(7 471 100)	-	(7 471 100)	(12 685 797)	(5 214 697)	See (s) below
Total expenditure	(44 045 000)	(190 000)	(44 235 000)	(52 909 705)	(8 674 705)	
Operating surplus before capital expenditure		2 432 411	1 176 000	3 608 411	7 888 440	4 280 029
Capital Expenditure	(17 927 000)	3 500 000	(14 427 000)	(19 068 793)	(4 641 793)	See (t) below
Surplus or (Deficit) for the year after capital expenditure		(15 494 589)	4 676 000	(10 818 589)	(11 180 353)	(361 764)

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments amounts on comparable basis	Final Budget	Actual	Difference between final budget and actual	Reference
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Figures in Rand

Revenue

1. **Licence and Permits** - under estimation of budget as more members of the public in general use the licencing facilities at the Municipality to renew, covert their licences
2. **Commission Received** - no budget provided for
3. **Donation Income** - no budget provided for. Income from donated small assets
4. **Other income** - includes various sources of minor income which is difficult to predict, therefore the actual is less than the budgeted amount.
5. **Interest Received** - more interest was received in the market link account than expected.
6. **Property rates** - the amounts actually billed was greater than budget could be due to various reasons such improvements to buildings by rates payers, sub divisions etc.
7. **Government Grants and subsidies** - the variance is due to the recognition of capital grant income when conditions of the grant is met. This actual amount received would have more if a portion of equitable share was not withheld.
8. **Fines** - Fines were over budgeted for and is also very difficult to budget for.

Expenditure

9. **Employee Related Costs** - the increase in the actual is due to the implementation of the EPWP programmes and job creation initiatives by the Municipality.
10. **Remuneration of Councillors** - the Councillors allowances were under budgeted for
11. **Contribution to medical Aid and Long Service Awards** - this was over budgeted for
12. **Depreciation** - this was under budgeted for and the Fixed assets register was completely redone resulted in correct depreciation being allocated.
13. **Finance Costs** - this was over budgeted for.
14. **Debt Impairment** - this was under budgeted for. When the actual discounting of debtors were done, the non- payment factor resulted in additional provision.
15. **Collection costs** - this was over budgeted for
16. **Repairs and Maintenance** - this was over budgeted for
17. **Contract Services** - this was over budgeted for
18. **Grants and Subsidy Expenditure** - there was slight under spending on this item
19. **General Expenditure** - under budget is the major cause of the variances in general expenditure. There were increases in legal fees, audit fees, fuel and oil, printing and stationery, IT expenses and consultant fees.

Capital Expenditure

20. The variances is due to the rollover of unspent MIG grant at the end of 2012-2013 not being brought into the adjustment budget due the fact that the rollover application was not approved by National Treasury. However the projects continued which resulted in the actual expenditure exceeding the budgeted amount.

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

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

1.2 Investment property

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

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

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes. Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition. Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied

property and from property held for sale in the ordinary course of operations.

1.3 Property, plant and equipment

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 through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

Item	Average useful life
Building	30 - 40
Plant and Equipment	
• Brushcutters and Lawn Mowers	3 - 15
• Tractors	10 - 20
• Guardrails	15
• Other	3 - 15
Furniture and Fixtures	
• Chairs and Sofas	5 - 15
• Bookshelves and Cabinet	7 - 15
• Desk and Tables	7 - 15
Motor Vehicles	
• Motor Vehicles	5 - 10
Office Equipment	
• Printers	3 - 7
• Cameras	3 - 7
• Video Cameras	3 - 7
• Air Conditioners	3 - 7
• Other	3 - 7
IT Equipment	

• Laptop	3 - 7
• Desktop	3 - 7
• Central Processing Unit	3 - 7
• Monitors	3 - 7
Infrastructure	
• Road and Paving	10 - 30
• Stormwaters	20 - 25
Community	
• Building	20
• Swimming Pool	20
• Sportfields	20
• Shelters	10 - 15
Security Measures	
• Walls	30
• Gates and Fencing	10 - 15

The residual value, the useful life and depreciation method of each asset are reviewed at least 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.

1.3 Property, plant and equipment (continued)

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.

CAPITAL WORK IN PROGRESS

Capital work in progress (WIP) represent the cost of construction work on assets which are not yet completed as at the end of the financial year

WIP costs are accounted for on an accrual basis at costs or fair value given in acquiring or constructing the asset. Under the accrual basis of accounting, costs are recognised when incurred, usually when goods or services are consumed and not necessarily when such goods or services are actually paid for.

Costs is the amount of cash or cash equivalent paid, including imports duties and non refundable purchases taxes, after deducting trade discounts and rebates.

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

The cost or fair value of an item of WIP is recognised as an assets if, and only if :

- (a) It is probable that future economic benefits associated with the item will flow to the entity ;and
- (b) The cost of the item can be measured reliably.

WIP assets are not depreciated until they are ready for their intended use.

Upon completion, WIP assets are reclassified to the appropriate asset class and at this stage depreciating

commences. The following is disclosed in the financial statement in respect of WIP :

- (a) The amount of expenditure recognised in the carrying amount in the course of construction; and
- (b) The amount of contractual commitment.

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

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

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

The Amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Amortisation is provided to write down the intangible assets, on a straight line basis as follows:

Item	Useful life
Computer software	5 years

1.5 Financial instruments

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments. The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets. For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value. Trade and other receivables are classified as receivables. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Liabilities are generally settled within the period of 30 days, accordingly, any impairments, if any, are considered to be immaterial.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in 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.

1.6 Tax

Normal tax expense

No provision has been made for taxation as the municipality is exempt from taxation in terms of section 10 (1) (A) or the Income Tax Act.

Value Added Tax (VAT):

The municipality accounts for VAT on the accrued basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality, permission has been given to remit or claim for value-added tax on the payments basis for debtors and creditors.

1.7 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. When a lease includes both land and buildings elements, the entity assesses the classification of each element separately. Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

1.7 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

Identification

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

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

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

1.8 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential. The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a

evaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.8 Impairment of non-cash-generating assets

(continued) Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the

contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Contribution to the Natal Joint Provident Fund (NJF) and are made as follows.

Current : Provident 1 - 30 Members - 5 % Council -
 9 % Provident 2 -7 Members - 7% Council
 - 18.04%
 Provident 3-2 Members - 9.25 % Council 18.04 %

Retirement 2 Members - 7% Council - 13.65%

Superannuation 32 Members -9.25% Council - 25 %

1.10 Provisions and contingencies

Provisions are recognised when:

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

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 a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.11 Revenue Recognition

Revenue is recognised at cost, and no interest is recognised as a result of any time value of money adjustments.

Measurement

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

Revenue from Exchange Transaction

Interest is recognised on a time proportion basis. Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariffs by Council. This includes the Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement. Revenue from the sale of goods is recognised when the risk is passed to the consumer. Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received but the Municipality has not met the condition, a liability is recognised.

Revenue from non-exchange transaction

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount

1.12 Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

1.13 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.

1.14 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.

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003) the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Revaluation reserve

The surplus arising from the revaluation of land is credited to a non-distributable reserve. On disposal, the net revaluation surplus is transferred to accumulated surplus/(deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

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 Presentation of 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 approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013-07-01 to 2014-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

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 Statement of comparison of budget and actual amounts.

1.19 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

2. New standards and interpretations

2.1 Standards and interpretations issued but not yet effective in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 18 : Segment Reporting	March 01 ,2005	Immediate
GRAP 20 : Related Party Disclosures	Revised	Immediate
GRAP 32 : Services Concession Arrangement Grantor	Revised	Immediate
GRAP 105 : Transfer between Entities under common control	November 2010	Immediate
GRAP 106 : Transfer between entities not under common control	November 2010	Immediate
GRAP107 : Mergers	November 2010	Immediate
GRAP 108 : Statutory Receivables		

2.2 Standards and interpretations effective and Adopted in the Current Year Standard/

Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 1 : Presentation of Financial Statement	April 01,2013	Immediate
GRAP 2 : Cash Flow Statement	April 01,2013	Immediate
GRAP 3 : Accounting Policies ,Changes in Accounting Estimate and Errors	April 01.2013 April 01.2013	Immediate Immediate
GRAP 9 : Revenue From Exchange Transaction	April 01,2013	Immediate
GRAP 16 : Investment Property	April 01,2014	Immediate
GRAP 17 : Property ,Plant and Equipment	April 01,2014	Immediate
GRAP 21 : Impairment of Non - Cash Generated Assets.	April 01,2014	Immediate
GRAP 23 : Revenue From Non - Exchange Transaction	April 01,2014	Immediate
GRAP 24 : Presentation of Budget Information on Financial Statement.	April 01,2014	Immediate
GRAP 25 : Employee Benefits	April 01,2014	Immediate.
GRAP 31 : Intangible Assets	April 01,2014	Immediate
GRAP 13 : Leases	April 01,2014	Immediate

3. Investment property

2014		2013		
Cost / Valuation	Accumulated depreciation and accumulated	impairment	Carrying value	Cost / Valuation Accumulated depreciation and accumulated

	impairment	Carrying value				
Investment property	1 158 000	-	1 158 000	1 158 000	-	1 158 000

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	1 158 000	1 158 000

3. Investment property (continued)

Reconciliation of investment property -

2013

	Opening balance	Total
Investment property	1 158 000	1 158 000

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

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposals.

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

4. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	9 415 368	(1 890 557)	7 524 811	9 415 368	(1 650 345)	7 765 023
Capital Work in Progress	12 976 188	-	12 976 188	6 249 037	-	6 249 037
Other Assets - Movables	5 675 430	(2 466 556)	3 208 874	4 822 026	(1 903 781)	2 918 245
Roads and Paving	34 842 990	(5 438 594)	29 404 396	31 286 139	(3 887 868)	27 398 271
Community Assets	32 132 786	(5 881 460)	26 251 326	24 201 398	(4 214 190)	19 987 208

Total	95 042 762	(15 677 167)	79 365 595	75 973 968	(11 656 184)	64 317 784
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Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)**Reconciliation of property, plant and equipment -**

6. 2014	Opening balance	Additions	Other changes, movements	Depreciation	Total
Buildings	7 765 023	-	-	(240 212)	7 524 811
Capital Work in Progress	6 249 037	12 666 174	(5 939 023)	-	12 976 188
Other Assets - Movables	2 918 245	853 403	-	(562 774)	3 208 874
Roads and Paving	27 398 271	3 556 851	-	(1 550 726)	29 404 396
Community Assets	19 987 208	1 992 365	5 939 023	(1 667 270)	26 251 326
	64 317 784	19 068 793	-	(4 020 982)	79 365 595

Reconciliation of property, plant and equipment restated - 2013

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Buildings	6 961 434	1 033 866	-	(230 277)	7 765 023
Capital Work in Progress	-	6 249 037	-	-	6 249 037
Other Assets - Movables	2 810 962	583 530	(27 630)	(448 608)	2 918 245
Roads and Paving	24 248 585	4 480 492	-	(1 330 806)	27 398 271
Community Assets	21 500 001	-	-	(1 512 793)	19 987 208
	55 520 982	12 346 925	(27 630)	(3 522 484)	64 317 784

Correction of Prior Year Property Plant and Equipment Balances

	As Previously Reported	Correction of an Errors	Total
Buildings	8 107 451	(342 427)	7 765 024
Roads and Pavings	28 172 291	(774 020)	27 398 271
Community Assets	26 528 724	(6 541 516)	19 987 208
Other Assets - Movables	2 939 273	(21 019)	2 918 254
Capital Work in Progress	-	6 249 037	6 249 037
	65 747 739	(1 429 945)	64 317 794

4. Property, plant and equipment (continued)

The Errors arose mainly as a result of changes to the residual values of the immovable assets and restatements and reclassification of Capital Work in Progress.

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

5. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	120 219	(48 087)	72 132	120 219	(24 044)	96 175

Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer software, other	96 175	(24 043)	72 132

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software, other	120 219	(24 044)	96 175

Correction of prior year Intangible Assets	As previously reported	Restatement of cost	Restatement of depreciation	Total	
	-	120 219	(24 044)	96 175	-

Computer Software, namely Pastel Accounting Software, had been written off in error in the previous years. It was re-instated at the original cost effective 1 July 2013. The software is expected to be used by the municipality for a period of five years and due to rapid technological changes, the residual value at the end of the useful live has been estimated at nil.

6. Receivables from exchange transactions

Payment In Advance	-	16 243
Other debtors	396 108	465 550
UMDM	43 876	74 384

439 984

556 177

7. VAT receivable

VAT

931 385

2 047 079

8. Consumer debtors

Gross balances

Rates

6 087 747

3 762 192

Figures in Rand

2014

2013

8. Consumer debtors (continued)

Less: Allowance for impairment

Rates	(2 632 080)	(867 079)
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Net balance

Rates	3 455 667	2 895 113
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Rates

Current (0 -30 days)	336 845	300 225
30 days	348 643	246 227
60 days	307 868	244 257
90 days	287 384	225 244
120 days	88 859	243 727
150 days	375 053	205 014
180 days	4 442 609	2 297 498
Debtors Discounting	(1 102 294)	(265 511)
Provision for Bad Debt	(1 629 300)	(601 568)

	3 455 667	2 895 113
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Reconciliation of allowance for impairment

Balance at beginning of the year	(867 079)	(977 909)
Contributions to allowance	(1 765 001)	110 830

	(2 632 080)	(867 079)
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Councillors in Arrears

No Councillors were in arrears with the municipality in 2013 / 2014	Nil	Nil
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9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand /Float	371	371
Petty cash	31	31
Standard Bank -Account number 052149978 - Current Account	315 267	517 872
Standard Bank -Account number 354264338 - Market Link	5 204 746	17 694 403
FNB - Account number 74104076952 - Business Fixed Maturity Notice	50 776	50 776

	5 571 191	18 263 453
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Standard Bank -Account number - 052149978 - Current Account
 Standard Bank -Account number - 354264338 - Market Link
 FNB - Account number - 74104076952 - Business Fixed Maturity Notice

10. Revaluation reserve

Opening balance	14 329 907	14 986 809
Change during the year	(657 353)	(656 902)

	13 672 554	14 329 907
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11. Unspent conditional grants and receipts**Unspent conditional grants and receipts comprises of:****Unspent conditional grants and receipts**

MIG	1 090 112	2 289 152
Municipal systems improvement grant	9 520	18 770
MAP	47 028	278 802
Community development workers	11 225	11 225
Corridor development	205 999	205 999
Financial management grant	15 827	32 707
Housing grant	444 068	444 068
Lums grant	46 537	46 537
Soul buddies	2 375	10 464
Sport grant	117	133 905
Pound	-	104 776
Electrification Grant	1 746 008	6 370 172
Unspent grants - Library	901	-
	3 619 718	9 946 578

Figures in Rand

2014

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11. Unspent conditional grants and receipts (continued)

Movement during the year

Municipal systems improvement grant

Opening balance	18 770	-
Current year receipts	890 000	800 000
Conditions met - transfer to revenue	(899 250)	(781 230)
Conditions still to be met - transfer to liabilities	9 520	18 770

MAP

Opening balance	278 802	278 802
Current year receipts	-	-
Conditions met - transfer to revenue	(231 774)	-
Conditions still to be met - transfer to liabilities	47 028	278 802

Community development workers

Opening balance	11 225	11 225
Current year receipts	-	-
Conditions still to be met - transfer to liabilities	11 225	11 225

Corridor development

Opening balance	205 999	205 999
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Financial management grant

Opening balance	32 707	73 549
Current year receipts	1 650 000	1 500 000
Conditions met - transfer to revenue	(1 666 880)	(1 540 842)
Conditions still to be met - transfer to liabilities	15 827	32 707

Housing grant

Opening balance	444 068	444 068
Current year receipts	-	-
Conditions still to be met - transfer to liabilities	444 068	444 068

Lums grant

Opening balance	46 537	46 537
Current year receipts	-	-
Conditions met - transfer to revenue	-	-
Conditions still to be met - transfer to liabilities	46 537	46 537

Municipal infrastructure grant

Opening balance	2 289 152	1 639 574
Current year receipts	14 427 000	12 442 000
Conditions met - transfer to revenue	(15 626 040)	(11 792 422)
Conditions still to be met - transfer to liabilities	1 090 112	2 289 152

Soul buddies

Opening balance	10 464	11 160
Current year receipts	-	-
Conditions met - transfer to revenue	(8 089)	(696)
Conditions still to be met - transfer to liabilities	2 375	10 464

Figures in Rand	2014	2013
11. Unspent conditional grants and receipts (continued)		
Sport grant		
Opening balance	133 905	135 107
Current year receipts	-	150 000
Conditions met - transfer to revenue	(133 788)	(151 202)
Conditions still to be met - transfer to liabilities	117	133 905
Pound Grant		
Opening balance	104 776	980 000
Conditions met - transfer to revenue	(104 776)	(875 224)
Conditions still to be met - transfer to liabilities	-	104 776
Electrification		
Opening balance	6 370 172	2 119 827
Current year receipts	-	7 000 000
Conditions met - transfer to revenue	(4 624 164)	(2 749 655)
Conditions still to be met - transfer to liabilities	1 746 008	6 370 172
Expanded Public Works Programme Grant		
Opening balance	-	-
Current year receipts	1 000 000	-
Conditions met - transfer to revenue	(1 000 000)	-
Conditions still to be met - transfer to liabilities	-	-
Library Grant		
Opening Balance	-	-
Current year receipts	653 000	-
Conditions met - Transfer to revenue	(652 099)	-
Contributions still to be met - transfer to liabilities	901	-
LGSETA		
Current year receipts	12 297	79 212
Conditions met - Transfer to revenue	(12 297)	(79 212)
	-	-
DSD - Social Development Grant		
Current year receipts	51 826	-
Conditions met - Transfer to revenue	(51 826)	-
	-	-
Non-current liabilities	-	-
Current liabilities	3 619 718	9 946 578
	3 619 718	9 946 578

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

Figures in Rand

2014

2013

12. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Increase/ (Decrease)	Total
Medical Aid Benefits and Long Service Awards (Long Term)	1 296 351	568 677	1 865 028
Provision for leave	1 196 014	410 665	1 606 679
Medical aid benefits and long service (Short term)	32 445	(13 966)	18 479
	2 524 810	965 376	3 490 186

Reconciliation of provisions - 2013

	Opening Balance	Increase/ (Decrease)	Total
Medical Aid Benefits and Long Service Awards (Long Term)	-	1 296 351	1 296 351
Provision for leave	822 413	373 601	1 196 014
Medical aid benefits and long service (Short term)	-	32 445	32 445
	822 413	1 702 397	2 524 810

The leave provision represents management's best estimate of the municipality's liability under one period based on prior experience .

The Adjustments to provisions for the 2013 Financial year relate to the Retrospective Application of Grap 25 which result in the provision being restated for medical aid benefit and Long Service Award.

Post retirement medical benefits

12. Provisions (continued)

POST RETIREMENT MEDICAL BENEFITS

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees. Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement.

The main assumptions used by the actuary are:

	2014	2013
Discount rate per annum	9.92%	9.56%
Health care cost inflation rate	8.89%	7.85%
Net effective discount rate	0.95%	1.59%
Post -Retirement subsidy		
Retirement age		
Males	65	65
Females	60	60
Mortality during employment	SA 85-90 Ultimate Table adjusted for Female lives	
Mortality post retirement	PA90-1 Ultimate Table rated down one year.	
Number of in-service non-members	38	33
Number of in-service members	27	26
Number of pensioners	0	0
Accrued liability at 30 June	994,256	634,430
Future - service cost	160,714	114,469
Interest cost	98,630	60,933
Expected benefits payments	-	-
Actuarial loss/(gain)	-	184,424
Total annual expense	259,344	359,826
Projected accrued liability at 30 June ensuing year	1,253,600	994,256
Accrued liability at 30 June	994,256	634,430
Short term portion of accrued liability	-	-
Long term portion of accrued liability	994,256	634,430

The effect on the liability of a 1% change in the assumed rate of medical inflation:	Liability (R millions)	Liability (R millions)
Central assumptions	0.994	
1% increase in assumed medical inflation	1.252	
1% decrease in assumed medical inflation	0.767	

Long Service Awards and Retirement Gifts

12. Provisions (continued)

LONG SERVICE AWARDS AND RETIREMENT GIFTS

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service.

The main assumptions used by the actuary are:	2014	2013
Discount rate per annum	8.40%	7.77%
General salary inflation rate (long term)	7.38%	6.40%
Net effective discount rate	0.94%	1.28%
Retirement age		
Males	65	65
Females	60	60
Mortality during employment : SA 85-90 Ultimate Table adjusted for Female lives		
Number of eligible employees	65	59
Accrued liability at 30 June	730,856	575,628
Future - service cost	106,825	85,647
Interest cost	60,607	43,479
Expected benefits payments	-18,479	-32,445
Actuarial loss/(gain)	-	58,547
Total annual expense	148,953	155,228
Projected accrued liability at 30 June ensuing year	879,809	730,856
Accrued liability at 30 June	730,856	575,628
Short term portion of accrued liability	-18,479	-32,445
Long term portion of accrued liability	712,377	543,183
	Liability	Liabilit
The effect on the liability of a 1% change in the assumed rate of salary inflation:		
Central assumptions	0.731	
1% increase in assumed salary inflation	0.800	
1% decrease in assumed salary inflation	0.670	

13. Payables from exchange transactions

Trade payables	782 433	1 898 345
Other creditors	712 200	307 187
Retention	2 023 336	1 377 733
	3 517 969	3 583 265

Figures in Rand

2014

2013

14. Property rates

Rates received

Commercial	8 540 138	7 873 619
Less: Income forgone	(1 501 658)	(1 151 154)
	7 038 480	6 722 465

15. Government grants and subsidies

Operating grants

Equitable share	23 921 000	28 180 000
Library - Grant Income	652 099	300 800
DSD - (Social Development - Grant)	51 826	-
Electrification Grant	4 624 164	2 749 655
Financial Management Grant	1 666 881	1 540 841
MAP Grant	231 774	-
MIG	15 626 040	11 792 422
MSIG	899 250	781 229
Sports Grant	133 788	151 201
LGSETA	12 297	79 212
Pound Grant	104 776	875 224
Soul buddies	8 089	696
EPWP Grant	1 000 000	-
	48 931 984	46 451 280
	48 931 984	46 451 280

Equitable Share

In terms of the Section 227 of the Constitution, this grant is used to enable the Municipality to provide basic services and perform functions allocated to it..

Equitable share provides funding for the municipality to deliver free basic services to poor households and subsidises the cost of administration and other core services for the municipality.

16. Other income

Library Income	10 142	8 920
Clearance Certificates	13 879	15 519
Subscription Library	105	166
Tender Fees	49 095	67 876
Building Plans	194 320	106 223
Decrease in debt impairment	-	110 830
Other Revenue	240	5 060
Library fees	2 445	2 338
Social Welfare	-	26 043
Application fee (Planning)	6 569	18 869
	276 795	361 844

17. General expenses

Stores and Materials	48 533	32 374
Advertising	136 293	181 180
Auditors Fees	1 831 491	1 437 910
Pound Security	49 124	-
Face Value - Licence Card Renewals	182 967	-
Legal Expenses	530 644	168 202
Consumables	117 553	21 191
Valuation Fees	770 707	1 198 579
Landfill Site Fees	97 055	-
Third Parties Expense Account - SARS	328 862	-
Insurance	129 498	707 263
Community development and Training	2 904 495	2 225 333
Conferences and seminars	217 908	143 073
IT expenses	573 014	310 799
Lease rentals on operating lease	74 712	70 704
Levies - Kwa Nologa	450 000	400 000
Licence Renewal	9 353	11 649
Disaster Management	245 171	240 795
Fuel and oil	681 999	488 842
Postage and courier	26 316	37 411
Printing and stationery	253 863	179 320
Art & Culture	262 414	202 985
Protective clothing	61 333	64 163
Banking Security Charges	44 928	54 946
Telephone and fax	445 738	499 922
Training and Development	372 615	378 450
Subsistence and travelling	27 867	30 714
Waste Management	34 807	11 910
Electricity	527 580	687 615
Uniforms	-	7 500
Tourism development	79 574	60 490
Building Control	51 684	49 887
Sport and Recreation	664 754	473 278
Civic and Hospitality	105 641	131 273
Administration Expenses	-	4 531
Consultants Fees	347 304	-
	12 685 797	10 512 289

Figures in Rand

2014

2013

18. Employee related costs

Basic	13 256 944	11 184 375
Bonus	781 477	881 908
Medical aid - company contributions	704 650	607 455
UIF	106 564	105 518
SDL	147 836	144 972
Leave pay provision charge	702 501	899 129
Cell Phone Allowances	34 976	27 546
Defined contribution plans	2 222 224	1 836 073
Travel, motor car, accommodation, subsistence and other allowances	189 040	133 160
Overtime payments	878 784	734 710
Acting allowances	226 781	118 065
Housing benefits and allowances	43 020	34 666
Bargaining Council Contributions	6 430	5 511
Stipend - Ward Committee	758 000	810 584
	20 059 227	17 523 672

Remuneration of municipal manager

Annual Remuneration	288 000	288 000
Travel Allowance	36 000	36 000
Back Pay	23 869	8 817
Miscellaneous	499 232	459 626
Leave Pay	83 654	70 334
Bonus	-	70 334
Subsistence and Travelling	23 646	-
Cellphone Allowances	12 000	12 000
	966 401	945 111

Remuneration of chief finance officer

Acting allowance	65 387	60 827
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Remuneration of Manager of Community Services

Annual Remuneration	264 320	-
Travel Allowance	33 040	-
Acting Allowances	29 581	4 878
Cellphone Allowance	3 776	-
Miscellaneous	4 401	-
	335 118	4 878

Remuneration of Manager Technical Services

Annual Remuneration	300 000	300 000
Travel Allowance	60 000	60 000
Backpay	19 557	7 342
Leave Pay	43 903	-
Miscellaneous	387 634	352 911
Cell Allowance	9 600	9 600
Bonus	-	36 585
	820 694	766 438

Remuneration of Manager of Corporate Services

Annual Remuneration	676 000	359 800
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Figures in Rand	2014	2013
18. Employee related costs (continued)		
Travel Allowance	60 000	37 160
Miscellaneous	11 634	49 117
Cellphone Allowance	9 600	5 946
Back Pay	19 557	-
	776 791	452 023
19. Remuneration of councillors		
Mayor	649 079	630 982
Deputy Mayor	544 455	504 719
Exco Members	139 887	264 027
Speaker	544 455	504 719
Councillors	2 244 831	1 964 938
	4 122 707	3 869 385
20. Interest received		
Interest Earned from investments	910 428	899 180
Interest charged on trade and other receivables	2 939	180 706
	913 367	1 079 886
21. Gains or losses on biological assets		
22. Auditors' remuneration		
Fees	1 831 491	1 437 910
23. Operating lease		
Operating lease payment represent rentals payable by the municipality for certain of its office photocopying machines. Leases are negotiated for an average term of five years.		
Operating leases - as lessee (expense)		
Minimum lease payment due		
Within One year	89 304	86 208
In second to fifth year inclusive	453 324	253 768
	542 628	339 976

Figures in Rand

2014

2013

24. Cash generated from operations

Surplus	7 888 440	11 629 410
Adjustments for:		
Depreciation and amortisation	4 039 173	3 546 528
Other Non - Cash flow Items	(783 968)	-
Impairment deficit	-	25 239
Debt impairment	1 765 002	601 568
Movements in provisions	965 376	1 702 397
Changes in working capital:		
Receivables from exchange transactions	116 193	40 573
Consumer debtors	(2 325 556)	(1 753 207)
Other receivables from non-exchange transactions	(11 673)	-
Payables from exchange transactions	(65 290)	1 458 575
VAT	1 115 694	(1 452 832)
Unspent conditional grants and receipts	(6 326 860)	4 000 729
	6 376 531	19 798 980

25. Capital Commitments

23.1. Committed in respect of Capital Expenditure

Approved and contracted for :

• Road Infrastructure	283 642	109 291
• Community Infrastructure	551 916	3 059 247
• Municipal Building	-	2 165 936
• Electrification	338 840	6 370 172
	1 174 398	11 704 646

23.2. Approved and Not Contracted for

• Care Centre	-	1 526 000
• Community Infrastructure	-	6 700 000
• Roads Infrastructure	19 140 000	6 250 000
• Community Services	1 080 000	-
• Other Capital assets	500 000	-
	20 720 000	14 476 000

This committed expenditure relates to property and will be financed by available grants, existing cash resources, funds internally generated, etc.

26. Contingent Liability

In terms of GRAP 19, the municipality is required to disclose a contingency liability in the financial statements. Due to the fact that not all the posts on the municipality's organogram were evaluated, it made it impractical for the municipality to measure the cost of the liability reliably.

The municipality is currently involved in the litigation with the following entities and individuals ,represented by the following attorneys.

1. Manderstone PDA appeal - The appellants advised that it was their intention to bring a high court review application against the municipality to prove the rezoning. We are expecting the high court application notice shortly and council will then decide whether or not to oppose the application or settle the matter out of court. The expected costs of this application is unknown at this point.

2. Portion 17 of the Farm Honing Krantz - HRF properties has erected building without approved plans and is using the property in conflict with the Town Planning scheme provisions. The municipality has agreed to give HRF properties an opportunity to regularise the situation.The expected costs is unknown at this point.

3. Spar Development - Actions was taken against the developers of spar to enforce compliance with various transgressions of the town planning scheme. The developers appealed to the municipality to allow it time to regularise the transgression .The expected cost is unknown at this point.

4. ERF 149 Camperdown Madressa - A successful order was obtained to prevent unlawful occupation of a building erected without the necessary building plans. A bill of costs was taxed but the municipality decided to settle out court and the municipality will settle the payment of costs issue directly with the Madressa.

5. Excellence at Work Consultants CC - Summons issued the Municipality for an amount of R110 000.00 , Expected costs are R150 000.00.

6. Mjajisi Elias Wanda - Claim for damaged crops against the Municipality, Expected costs R 300 198.00.

27. Prior period errors

The following adjustment were made to amounts previously reported in the Annual Financial statements of the Municipality arising from the compliance to GRAP standards.

During the year the municipality discovered differences in the asset register that had been disclosed in the prior period.

Property Plant and Equipment

Previously Restated	-	65 747 739
Rectification of Prior period errors	-	(1 429 955)
Restated Balance	-	64 317 784

Accumulated Surplus

Previously Stated	-	62 305 261
Rectification of Prior period errors	-	(3 356 041)
Restated Balance	-	58 949 220

Intangible Assets

Previously Stated

Rectification of Prior period errors

-

-

-

96 175

Restated Balance

-

96 175

Figures in Rand

2014

2013

27. Prior period errors (continued)

Impairment Adjustment

Previously Stated	-	31 093
Rectification of prior period errors	-	(5 854)
Restated Balance	-	25 239

Payables from Exchange transactions

Previously Stated	-	2 889 802
Rectification of prior period errors	-	693 464
Restated Balance	-	3 583 266

Depreciation Adjustment

Previously Stated	-	3 084 589
Rectification of Prior period errors	-	461 939
Restated Balance	-	3 546 528

Grants and Subsidies

Previously Stated	-	6 916 353
Rectification of prior period errors	-	280 209
Restated Balance	-	7 196 562

Contributions to Medical Aid and Long Term Service Award

Previously Stated	-	-
Rectification of prior period errors	-	1 328 796
Restated Balance	-	1 328 796

28. Risk management

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council. The utilisation of credit limits is regularly monitored.

Figures in Rand

2014

2013

29. 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.

30. Irregular expenditure

Irregular Expenditure - current year	1 476 459	1 198 103
Less: Amounts condoned	-	(1 198 103)
Discovered during 2013 /2014 Audit	292 258	-
Amounts not condoned	1 768 717	-

Irregular expenditure consists of SCM deviations amounting to R1 768 717 during the current period.

Contracts awards in Terms of Section 36 (Deviations from /and ratification of minor breaches of procurement processes of the Supply Chain management policy amounted to R1 768 717. These were mainly due to 3 quotes not being obtained and other SCM processes not being complied with.

31. Related Parties

During the year ,the municipality traded with with Sya Matiwane Trading who provided decorating services to the Municipality to the value of R4500. Mrs K.M Matiwane is employed as a Cyber Cadet at the Camperdown Municipality Library and is the spouse of the owner of Sya Matiwane Trading

32. Deviation from procurement processes

The amount of deviation reported from procurement processes was R438 596.50 for the appointment of a service provider to interface the fixed assets.This was done in terms of regulation 32 of the municipal supply chain regulations..

Irregular expenditure	1 768 717	1 198 103
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Mkhambathini Municipality Appendix G3
Budgeted Financial Performance (revenue and expenditure)

for the year ended 30 June 2014

2014/2013

2013/2012

	Original Budget	Budget	Final	Shifting of	Virement	Final Budget	Actual	Unauthorised	Variance of	Actual	Actual	Reported	Expenditure	Balance to be	Restated
		Adjustments	adjustments	funds (i.t.o.	(i.t.o. Council		Outcome	expenditure	Actual	Outcome as %	Outcome as %	unauthorised	authorised in	recovered	Audited
		(i.t.o. s28 and s31 of the MFMA)	budget	s31 of the MFMA)	approved policy)				Outcome against Budget Rand	of Final Budget	of Original Budget	expenditure	terms of section 32 of MFMA		Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Expenditure By Type															
Employee related costs	17 039 000	-	17 039 000	-	-	17 039 000	20 059 227	-	3 020 227	118 %	118 %	-	-	-	17 523 672
Remuneration of councillors	4 101 000	-	4 101 000	-	-	4 101 000	4 122 707	-	21 707	101 %	101 %	-	-	-	3 869 385
Debt impairment	1 000 000	-	1 000 000	-	-	1 000 000	1 765 002	-	765 002	177 %	177 %	-	-	-	601 568
Depreciation & asset impairment	2 237 000	-	2 237 000	-	-	2 237 000	4 039 173	-	1 802 173	181 %	181 %	-	-	-	3 546 528
Finance charges	-	120 000	120 000	-	-	120 000	117 055	-	(2 945)	98 %	DIV/0 %	-	-	-	106 983
Collection Costs	40 000	-	40 000	-	-	40 000	34 414	-	(5 586)	86 %	86 %	-	-	-	173 724
Contribution to Medical Aid and long Service awards	600 000	-	600 000	-	-	600 000	554 711	-	(45 289)	92 %	92 %	-	-	-	1 328 796
Contracted services	50 000	70 000	120 000	-	-	120 000	35 181	-	(84 819)	29 %	70 %	-	-	-	286 173
Transfers and grants	9 000 000	-	9 000 000	-	-	9 000 000	8 912 807	-	(87 193)	99 %	99 %	-	-	-	7 196 562
Other expenditure	7 471 100	-	7 471 100	-	-	7 471 100	12 685 797	-	5 214 697	170 %	170 %	-	-	-	10 512 289
Repairs and Maintenance	2 506 900	-	2 506 900	-	-	2 506 900	583 631	-	(1 923 269)	23 %	23 %	-	-	-	1 040 825
Impairment loss / Reversal of impairments	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	25 239
Total Expenditure	44 045 000	190 000	44 235 000	-	-	44 235 000	52 909 705	-	8 674 705	120 %	120 %	-	-	-	46 211 744
Surplus/(Deficit)	2 432 411	1 176 000	3 608 411	-	-	3 608 411	7 888 440	-	4 280 029	219 %	324 %	-	-	-	11 629 410
Transfers recognised - capital	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
Contributions recognised - capital	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
Contributed assets	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	2 432 411	1 176 000	3 608 411	-	-	3 608 411	7 888 440	-	4 280 029	219 %	324 %	-	-	-	11 629 410
Taxation															
Surplus/(Deficit) after taxation															
Attributable to minorities															
Surplus/(Deficit) attributable to municipality															
										2 432 411		1 176 000	3 608 411		

219 %

324 %

11 629
410

Background

Mkhambathini Local Municipality has an Audit and Performance Committee (the Committee) in terms of Section 166 of the Municipal Finance Management Act 56 of 2003 of the Municipal Systems Act. The Committee serves purpose of being an independent advisory body to the Council, the Political Office Bearers and the Accounting Officer thereby assisting Council in its oversight role.

Due to the resignation of Mr Dlamini at the end of December 2013 Council took a resolution that a vacancy be filled and Mrs D. H Phoswa was appointed as a replacement. Mrs Phoswa has been involved with municipalities in ensuring that services delivery milestones are met and communicated effectively and transparently to the public. She also served in the uMgungundlovu oversight committee for a period of 3 years, bringing in vast experience on public sector mandate taking into consideration her academic credentials in this regard.

In terms of membership the Audit Committee is fully functional consisting of three (3) members of the Audit Committee, namely:-

- Mr S.J Kunene (Committee Chairperson)
- Mr J. Mathobela (Committee Member)
- Mrs D. H Phoswa (Committee Member)

Membership and Attendance of Meetings.

The Audit Committee consists of independent members who by virtue of the requirement of Section 166 of the Municipal Finance Management Act 56 of 2003 and in terms of the approved Audit Committee Terms of Reference, is required to meet at least four times a year

Name	Number of Meetings Scheduled	Number of Meetings Attended
Mr V. Dlamini (Chairperson - Resigned)		
Mr S J Kunene (Committee Member)		
Mr J. Mathobela (Committee Member)		
Mrs D. Phoswa (Committee Member – Newly Appointed)		

The Effectiveness of Internal Control

The municipality’s system of internal controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are effectively managed. In line with the Municipal Finance Management Act and the King Report on Corporate Governance, Internal Audit and the Auditor General’s reports will provide the Audit Committee and Management with assurance that the internal controls of the Municipality are appropriate and effective.

The Audit Committee reviewed reports from the Internal Audit, established the internal controls systems were in place but lack adequacy and lack effectiveness in terms implementation within the Municipality.

Risk Management, Compliance and Effective Governance

During the financial year under the Internal Audit engaged senior management to undertake a risk assessment review process which was completed. The Internal Audit undertook the testing of risks and compliance as part of the Risk Based Audit plan that was adopted and approved by the Audit Committee. The success of governance structures with the Municipality depends of the municipal leadership and municipal senior management committing itself to work together with all other stakeholders and implements risk strategies, internal control measures, compliance and effective performance management system in order to achieve its desired goals.

The implementation of risk and risk activities within the municipality was done but still require concerted effort and buy-in from all stakeholders involved.

Internal Audit Activity

The Internal Audit Activity during the year has been functioning as per the Internal Audit Charter approved by the Audit Committee. The Committee was satisfied that the work carried out by the Internal Audit

Activity which among others include development of the Risk Based Internal Audit Plan and its implementation.

Performance Management and Evaluation

The success of the Municipality rest upon its leadership and other key stakeholders to work together to ensure its proper functioning in order to achieve its objectives. There were areas that require leadership and management to give a special attention in orders to ensure continuous improvement on performance management information in terms of administration, monitoring, evaluation and performance reporting.

The review by the Audit Committee of quarterly reports and Performance Management System with special focus on economy, efficiency and effectiveness require further improvements

Mr S.J Kunene

For the Audit Committee

MANAGEMENT PROGRESS REPORT ON AUDITOR GENERAL'S REPORT

Ref	Matter	Detail	Planned Corrective Action	Responsible Official/ Structure	Timeframe
18. 20. 22.	Reported objectives, indicators and targets not consistent with planned objective, indicators and targets	Section 41 of the Municipal Systems Act requires the Integrated Development Plan to form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets were not consistent with those in the approved Integrated Development Plan. This was due to a lack of, or limited review/monitoring of the completeness of reporting documents by management.	<ul style="list-style-type: none"> Appointment of the Performance Management Specialist to undertake a review of all the findings which resulted in this matter appearing in the audit report Once the PMS is in office draft action plan on how to prevent the reoccurrence of these matters again in the 2014-2015 audit of Performance Information. Once the Performance Management Specialist is in office draft, monthly reports to be submitted to MANCO to measure progress on compliance. 	Municipal Manager Performance Management Specialist All HODS	Dependant on appointment of Performance Management Specialist Thereafter Monthly
8.	Significant Uncertainties	With reference to note 26 to the financial statements, the municipality is the defendant in different lawsuits. The ultimate outcome of the matter cannot be presently determined and no	<ul style="list-style-type: none"> Management will review all litigation matters in favour of and against the Municipality and prepare a status report in this regard. In instances where uncertainties exist, management and council must decide on a way forward in the best interest of the Municipality. 	Municipal Manager Manager Corporate Services	March 2015

		provision for any liability that may result has been made in the financial statements.			
29.	Procurement and Contract Management	Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by DCM regulations 17 (a) & (c)	<ul style="list-style-type: none"> • More control is being exercised over the procurement process by SCM and CFO. • A check list has been developed in consultation with Provincial Treasury SCM Support Unit. • The check list has been implemented with effect 1 December 2014 	Municipal Manager CFO SCM	Implemented on 1 December 2014 On going
30.	Procurement and contract Management	Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM polity in contravention of SCM Regulations 16 (b) and 17 (b)	<ul style="list-style-type: none"> • Where possible only service providers on the list of accredited suppliers will be used. • A check list has been developed in consultation with Provincial Treasury SCM support unit which provides a check to ensure that suppliers on the database is used. • The check list has been implemented with effect 1 December 2014 	Municipal Manager CFO SCM	Implemented on 1 December 2014 On going
31.	Procurement Management	Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any persons employed by the	<ul style="list-style-type: none"> • SCM to ensure that declaration forms are completed and signed by bidders who are awarded work by the Municipality • A check list has been developed in consultation with Provincial Treasury SCM support unit which 	Municipal Manager CFO SCM	Implemented on 1 December 2014 On going

		state, as required by SCM regulations 13 ©	<p>provides a check to ensure that declaration forms are completed.</p> <ul style="list-style-type: none"> The checklist has been implemented with effect 1 December 2014. 		
32.	Procurement and Contract Management	<p>Awards were made to providers who were in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of the MFMA 112 (J) and SCM regulation 44. Similar award were identified in the prior year and no effective steps were taken to combat the abuse of the SCM process in accordance with SCM regulations 38 (1)</p>	<ul style="list-style-type: none"> The Municipal Supplier Database once updated in February 2015 will be handed to provincial treasury to assist us identify a persons who in the service of the state. This will assist us to avoid doing business with such companies in future. 	<p>Municipal Manager CFO SCM</p>	<p>March 2015</p> <p>On going</p>
33.	Procurement and Contract Management	<p>The prospective providers list for procuring goods and services through quotations were not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers where not invited to apply for such a listing</p>	<ul style="list-style-type: none"> An advertisement will be placed during January 2015 calling for suppliers to update their information on the existing database. The advertisement will also call for new prospective suppliers to register on the database. 	<p>Municipal Manager CFO SCM</p>	<p>March 2015</p> <p>Therafter Ongoing</p>

		once a year as per requirements of SCM regulation 14(1)(a) (ii) and 14(2)			
34.	Procurement and Contract Management	A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by the SCM regulations 14 (1) (a)	<ul style="list-style-type: none"> Once the advertisement process mentioned in the point above is completed, a list of prospective providers can be compiled and be used to select suppliers to trade with. 	Municipal Manger CFO SCM	March 2015 Thereafter Ongoing.
36.	Leadership	Vacancies in Key position in finance department negatively impacted on the oversight and monitoring functions that are the responsibility of leadership and management. This has also impacted on the credibility of the information and reports provided to leadership for oversight and decision making.	<ul style="list-style-type: none"> The Post of the CFO has been filled with effect 1 August 2014. Other Key vacancies in Finance and other Departments will be prioritised to be filled as soon as possible. 	Municipal Manager Manager Corporate Services	31 March 2014
37.	Financial and Performance Management	There was inadequate supervision and monitoring of the financial management and performance management	<ul style="list-style-type: none"> Monthly reporting an reconciliations will be conducted to ensure compliance. Filling of critical posts in Finance and that of the Performance Management Specialist will greatly 	Municipal Manager CFO / Budget and Treasury	January 2014 Thereafter Ongoing

		functions of the Municipality, resulting in systems of internal controls not preventing, detecting and correcting non-compliance and material misstatements in the financial statements and performance management	assist to correct areas of concern	Office	
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MAYORS FOREWORD



I am pleased to present the Mkhambathini Municipality's Annual Performance Report covering the period 1 July 2013 – 30 June 2014. The report provides a measure of our performance and tracks operational and strategic performance in the context of the Municipality's approved IDP priorities.

To become increasingly accountable in our reporting; and to ensure transparency in respect of our budgetary, monitoring and oversight processes, we present an Annual Report which emphasises on the connection between our strategic planning processes and our operation achievements. Accordingly, we share our successes, and challenges during the year, thereby deepening our communicating with stakeholders and setting the bar high for future performance reporting in all areas of the Municipality's services, infrastructure and administrative delivery.

I would like to take this opportunity to acknowledge efforts to the Municipality's leadership and administration in positively advancing the Municipality's strategic and transformative agenda during the year; and to thank them for their perseverance and readiness in boldly implementing the objectives of the IDP.

Towards 2013/2014 we attained some notable achievement in terms of the Performance Management system, therefore this will allow us an improved way of reporting in the coming year. This entailed further aligning key performance indicators with the strategic priorities that drive our implementation process.

We continue to expand our programmes and we have managed to create 80 EPWP job opportunities, this was a combined initiative between the Municipality and the Department of Agriculture and Environmental Affairs.

We are committed to improving our performance in the year ahead. We are confident that we will meet the expectations of our stakeholders as we drive implementation of our long, medium and short term strategies. This Municipality is intensifying integrated efforts to align the NDP, PGDS and IDP.

The Municipality holds the hopes and aspirations of its entire people. We are committed to our vision which is to provide sustainable services to all communities with emphasis on infrastructure social and economic development in a safe and healthy environment managed by good leadership. We are creating safer caring communities and providing a safety-net for the indigent.

The report addresses issues that are material and provides a fair representation of the performance of the Mkhambathini Municipality for the period ending 30 June 2014.

Cllr T MAPHUMULO

MAYOR

MUNICIPAL MANAGER'S FOREWORD



The Municipality recognises the need to create an inclusive economy through increasing the contribution of SMME's to the economy. The Municipality is committed to developing competitiveness, innovation and increased investment through support for SMME's. The Expanded Public Works Programme (EPWP) aims to reduce unemployment and alleviate poverty by creating on-the job training. However it should be noted that there is a long way to go in achieving a totally inclusive economy and to eradicate unemployment.

Notwithstanding recorded achievements, the Municipality acknowledges missed targets. To enhance attainment of these the Municipality is improving its environmental and operational issues, improving capacity with an aim of reducing the use of Consulting firms. Furthermore the municipality is developing a plan to improve the skills of its workforce to ensure improved delivery against set targets.

A detailed review of our performance against SDBIP targets can be found in the report, reflecting where our targets were either met or missed.

The Municipality's biggest asset is its employees who bear responsibility for delivering its mandate to the communities. They are the foundation and drivers of our collective success. Accordingly, the Municipality strives to create value by attracting, developing and retaining skilled and competent people. Through our Human Resources Management function, we are committed to inspiring and growing people through individual development analysis and plans, as well as career management programmes and by recognising performance excellence. The Municipality is committed to recruiting from within its communities while also ensuring a deliberate focus on developing a local skills base where this may not exist.

I would like to express my appreciation for the support received from the Mayor, Cllr TE Maphumulo and political leadership in Council as well as the Municipality Sub-Committee which also encompass the Audit and

Performance Audit Committee. Administratively, I would like to thank all staff members who are operationally involved and our senior management for their continuous support. Collectively we remain committed to efficient service delivery and the attainment of a liveable and sustainable Mkhambathini area.

MR DA PILLAY

MUNICIPAL MANAGER

BACKGROUND TO MUNICIPAL PERFORMANCE REPORTING

The Mkhambathini Municipality's Annual Performance Report 2012/13 is compiled in terms of the legislative requirements of Chapter 6 of the Municipal Systems Act, 32 of 2000 and Chapter 12 for the Municipal Finance Management Act, 56 of 2003. The Municipal System Act prescribes the role of each sphere of government in the municipal performance reporting.

PURPOSE OF THE REPORT

The main purpose of this report is to account to the MEC for Local Government, the Provincial legislature, the National Council Of Provinces (NCOP), the Minister of Cooperative Governance and Traditional Affairs, National Treasury, Auditor- General and to the Community of Mkhambathini and the citizen of South Africa on progress being made by municipalities towards achieving the overall goal of "a better life for all". Furthermore, the report is a key performance report to the communities and other stakeholders in keeping with the principles of transparency and accountability of government to the citizens. It subscribes to the South Africa developmental nature of participatory democracy and cooperative governance and responds to the principles of the Constitution, the Batho Pele, White Paper on Local Government, MSA and the MFMA.

THE ASSESSMENT PROCESS AND THE METHODOLOGY FOLLOWED IN COMPILING THE REPORT

Chapter 6 of the MSA requires the municipalities to monitor and measure the progress of their performance by preparing quarterly and mid-year performance reports. These quarterly and mid-year reports make up the municipalities, annual performance reports as outlined in Section 46 of the MSA, which are submitted to the auditor General, together with the Financial Statement, for auditing. After adopting of the audited performance report by the municipal council (a component of the Annual Report), it must then be submitted to the MEC for Local Government.

LEGISLATIVE OVERVIEW

Section 46 of the Municipal Systems Act requires a municipality to prepare for each financial year a performance report reflecting-

- ❖ The performance of the municipality and of each external services provider during that financial year;
- ❖ A comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year; and
- ❖ Measures taken to improve performance

An annual performance report must form part of the municipality's annual report in terms of chapter 12 of the Municipal Finance Management Act.

Section 121 (1) (3) c) of the Municipal Finance Management Act (MFMA) 56 of 2003, requires that:

(1) Every municipality and every entity must for each financial year prepare an annual report. The Council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared control in accordance with section 129.

3) The annual Report of a municipality must include

c) the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal Systems Act.

Section 129 (1) a) – c) of the Municipal Finance Management Act (MFMA) 56 of 2003, requires that:

(1)The Council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality's sole or share control, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council:

a) Has approved the annual report with or without reservations;

- b) *Has rejected the annual report; or*
- c) *Has referred the annual report back for revision of those components that can be revised.*

Every attempt has been made to align the submission of this Annual Performance Report with the submission of the Annual Financial Statement for the Office of the Auditor General.

LESSONS LEARNT

Reporting requires that the priorities of the organisation, its performance objectives, indicators, targets, measurements and analysis, are taken and presented in a simple and accessible format, relevant and useful to the specified target groups for the reader's need in reviewing performance, the existence of too many reporting formats can become both confusing and burdensome to the organisation. The ideal situation is the existence of one reporting format that contains the necessary information for all users, yet remains simple and accessible to all users.

It also apparent that in order for an effective PMS, it is necessary for all stakeholders to be involved in the planning, monitoring and review process. It should be noted that there is a need for the streamlining of oversight activities by the Council and Community through processes specified in a framework to be aligned to other key strategic processes of the organisation.

Furthermore one of the critical factors influencing performance in the value chain and instilling a culture of performance, this would include amongst others – change management and team building techniques, awareness of and practicing of Batho Pele principles and a Code of Ethics. The leadership and management processes are key to ensuring an outcome driven entity with recognition and acknowledgment systems being implemented. It is therefore deemed appropriate to ensure that performance management is cascaded down to all levels of employees.

For the performance Management process to be efficient, it is necessary for all involve to be aware of the importance and reporting requirements of the PMS process. Subsequently a more formalised manual reporting systems needs to be devised and understood by all before an automated system is implemented to ensure accurate reporting that is aligned to financial reporting processes. This must be followed by effective risk management and internal audit processes to ensure that review mechanisms are implemented timely.

The institutional arrangements within the organisation must be such that it supports the process, this would include sufficient capacity to lead the process and to ensure that compliance issues are administered. The need for each department to also identify performance champions administratively to co-ordinates performance information to support performance managers and leaders is critical for ensuring compliance with reporting requirements. This would include adequate administrative system such as record keeping, consistency with administrative support officials. Furthermore, ongoing awareness and training is necessary to ensure that the entity is up-to-date with all performance related issues and how this integrates into other municipal processes.

The need for improved intergovernmental relations to ensure streamlining of performance based reporting processes is also necessary. This would require that all spheres of government integrate and coordinate these reporting requirements through the identification and rationalization of key performance indicators aligned to the National Growth Path. Furthermore, the alignment to the national government Medium Term Strategic Framework and National Priorities is necessary to ensure that all spheres of government are striving towards common goals and targets. It is also deemed appropriate for a common reporting, monitoring and assessment process to be developed and for all spheres of government in respect of specific key interventions/performance areas.

DEVELOPMENT STRATEGY

The development strategy for the Municipality is designed to fit-in and give effect to the intention of both the national and provincial development strategies. This includes at a National Development Plan (Vision 2030) and various government programs. The Municipal IDP also fits within the provincial development framework as set out in the PGDS. The Municipality's strategy covers the following:

- Strategic fit (alignment with national and provincial development strategies).
- MLM long-term strategic direction and organizational culture.
- MLM short-to-medium term strategies and action plans.

ALIGNMENT WITH NATIONAL AND PROVINCIAL STRATEGIES

Strategic Fit: National

The strategic approach is meant to highlight the impact that the municipality seeks to create in the short to long term period. As indicated in the IDP, in addition to Outcome 9, the Municipality will contribute to the attainment of outcomes 2, 4, 6, 8, 10 and 12 with the 5 KPAs as the strategic areas for intervention. As such, the development strategy for the Municipality is designed to address issues that are specific to the Municipality whilst also contributing to the attainment of the National and Provincial Priorities.

LOCAL GOVERNMENT TURN AROUND STRATEGY

In line with the national turnaround strategy, the Municipality also strives to address the turnaround priorities as identified below. The PMS of the municipality caters for the monitoring of targets set against these activities as included in the IDP.

The outcome of meeting these objectives as identified by the Local Government Turnaround Strategy include:

- The provision of household infrastructure and services;
- The creation of liveable, integrated and inclusive cities, towns and rural areas;
- Local economic development; and
- Community empowerment and distribution

Accordingly the Municipality has prioritised the following as part of the municipal turnaround strategy:

- Service delivery (maintain existing levels & Rehabilitation of infrastructure and backlogs)
- Fast Track Sustainable Human Settlements through Housing and Rural Development Program
- Develop Consolidated Infrastructure Plan and Capital Investment Plan for implementation.
- Debt Management – increase payment factor
- Revenue enhancement
- Debt Control
- Revenue Collection
- Integration and co-ordination (Establishment of Economic Forums)
- Clean Audit by 2014;
- Intergovernmental relations;

- Identify infrastructure that supports economic development;
- Development of Communication Strategy; and
- The establishment of the poverty and unemployment eradication strategy by 2015.

LOCAL GOVERNMENT OUTCOME 9

The national government has adopted an Outcomes Based Approach to development as a means to focus government initiatives and manage public expectations. Based on the Medium Term Expenditure Framework (MTEF), Outcome 9 deals with local government and affects the Municipality directly. It moves from a premise that local government is a key part of the reconstruction and development effort in South Africa and that aims of democratizing society and growing the economy inclusively can only be realized through a responsive, accountable, effective and efficient local government system that is part of a development state. The Municipality PMS also supports Outcome 9 and specific KPI's aligned to outputs specified below are included in both the Organisational scorecard and SDBIP's.

The government has identified the following outputs for Outcome 9:

- Output 1: implement a differentiated approach to municipal financing, planning and support.
- Output 2: improving access to basic services
- Output 3: Implementation of the Community Work Programme
- Output 4: Actions supportive of the human settlement outcome
- Output 5: Deepen democracy through a refined Ward Committee Model
- Output 6: Administrative and financial capability
- Output 7: Single window of coordination

PRIORITY ISSUES AS IDENTIFIED IN THE 3RD GENERATION IDP

- Delivery of human settlements – housing;
- Upgrading and expansion of existing infrastructure;
- Poverty and unemployment;
- Rural development and Urban renewal;
- Public participation and Governance;
- Infrastructure Investment Program;
- Debt collection and management;

VISION

The following vision statement for the Municipality were formulated at a strategic planning session with active participation of both administrative and political components of the municipality. The vision commits the municipality to sustainable, integrated, equitable and effective development.

By the year 2020, Mkhambathini Local Municipality will be a sustainable developmental municipality with improved quality of life for its entire people in areas of basic services, social, economic development.

ORGANISATIONAL SCORECARD 2013/14 ANALYSIS

The above-mentioned strategic priorities as identified in the IDP, cascades into the performance management system of the municipality through the annual organisational scorecard (*Appendix A*).

SERVICE DELIVERY BUDGET IMPLEMENTATION PLAN (SDBIP) 2013/14

Performance on the SDBIP's for each of the departments is attached as Appendix A, with the assessment being done on the reviewed Actuals against Portfolio of Evidence submitted by department heads. This is still subject to an auditing and verification process. This report is also subject to a formal evaluation process being conducted by the Municipal Manager.

The methodology used for the assessment is based on the rating calculator for the Municipal Manager and managers directly accountable to the Municipal Manager, as well as the Dashboard used by the Auditor-General. The scorecards were reviewed against actuals reported against submission of portfolio of evidence which was also subject to an internal audit process.

The total number of KPI's on the performance score-cards (Departmental SDBIP's) is 98 (relevant and applicable) of which targets on the scorecard forms the basis of this assessment.

SERVICE PROVIDER PERFORMANCE REPORT

Section 46 (1) (a) (b) states that “(1) A municipality must prepare for each financial year a performance report reflecting:

- (a) the performance of the municipality and of each external service provider during that financial year;
- (b) a comparison of the performance referred to in paragraph (a) with targets set for and performance in the previous financial year, and
- (c) Measures taken to improve performance.

The municipality have taken strides to ensure compliance with the above quoted legislation however in terms of services provider performance comparison are sometimes not possible due to the fact that project are completed within the particular financial year. The comparisons however in terms of performance of the municipality has been achieved. This is indicated in the document attached as annexure B

OVERALL COMMENT

- The progress and performance made in respect of meeting organisational and operational targets is commended.
- Additional monitoring, evaluation and review at a departmental level on at least a monthly basis, is compulsory to encourage adherence to planned programmes especially the capital programmes.
- Internal co-ordination systems and processes require review to ensure improved co-ordination.
- Internal Auditing processes should be seen as supportive of and value-adding to the performance management process.
- Record keeping and document management approaches will determine the quality of the evidence to be submitted for evaluation purposes.
- Performance management capacity to be increased organisation-wide to improve accountability.

GENERAL RECOMMENDATIONS FOR IMPROVEMENT

- Performance Management should be a standing item in the Management Committee Meetings;
- That Heads of department ensure that the performance information and the Portfolio of Evidence are submitted timeously;
- That evidence submitted is signed off in order to ensure that information is valid; reliable and correct.
- That where applicable, the department communicates with the responsible department to merge certain Key Performance Indicators and provide information corresponding to each other for alignment purposes.
- That Head of department and responsible managers conduct monthly meetings to monitor compliance with all targets and reporting requirements.
- That alignment of financial and non-financial performance information be fast tracked and that Financial Services Department support departments in this regard.
- Regular monitoring and oversight required for all targets set.
- That project task teams be established for all projects where co-ordination and integration are required.
- That a system be developed to ensure monitoring of all service providers.
- That a baseline study be conducted on basic services to ensure alignment with internal statistics, Stats-SA and other sources.
- Monthly reporting system should be introduced.
- Personal Assistant to be trained in terms of collating the evidence.

