
1.2. MUNICIPAL FUNCTIONS, POPULATION AND ENVIRONMENTAL OVERVIEW

Geography, History and Economy

Area: 6 796km²

Masilonyana Local Municipality is situated between the province's biggest municipality (Mangaung Metropolitan Municipality in the south) and the second-biggest municipality (Matjhabeng Local Municipality in the north). The former administration of the following greater Transitional Local Councils: Theunissen, Brandfort, Winburg, Soutpan and Verkeerdevlei, were amalgamated into the local municipality of Masilonyana. It is an impoverished semi-urban area with a high unemployment rate. The municipality prides itself on its tourist destinations, such as the Florisbad National Quaternary Research Station. This is where the first human skull was discovered. There are also cooperatives in Soutpan working on the salt lakes to produce salt.

The municipality plays host to two toll plazas on two major roads in the province; the Verkeerdevlei Plaza on the N1 is the last before entering Bloemfontein from the north, and the Brandfort Plaza on the former R30 (now ZR Mahabane Road) is situated between Brandfort and Bloemfontein. Brandfort is also known for its rich political history, which includes the National Military Museum on a farm that used to be a concentration camp during the Anglo-Boer War and the Winnie Mandela House, where Mandela was sentenced to House Arrest during the State of Emergency in the 1980s. Theunissen is also situated on the ZR Mahabane Corridor between Bloemfontein and Welkom, and hosts the three mines within the municipal jurisdiction. Winburg has economic potential because of its location, which is 100km west of Bloemfontein, and its linking of Bloemfontein with Johannesburg, Cape Town and Durban. It prides itself with the Voortrekker Monument as its Heritage Site, and Masilonyana boasts several game reserves across all its towns.

Towns: Brandfort, Soutpan, Theunissen, Verkeerdevlei, Winburg
Main Economic Sectors: Agriculture, Mining, Community Services

DEMOGRAPHICS

Population	63 334
Age Structure	
Population under 15	29.80%
Population 15 to 64	64.40%
Population over 65	5.80%
Dependency Ratio	
Per 100 (15-64)	55.30
Sex Ratio	
Males per 100 females	101.90
Population Growth	
Per annum	-0.17%
Labour Market	
Unemployment rate (official)	38.80%
Youth unemployment rate (official) 15-34	49.80%
Education (aged 20 +)	
No schooling	
Higher education	4.50%
Matric	23.10%
Household Dynamics	
Households	17 575
Average household size	3.30
Female headed households	42.70%
Formal dwellings	82.90%
Housing owned	
Household Services	

Source: Census 2011 Municipal Fact Sheet, published by Statistics South Africa

MUNICIPAL FUNCTIONS

A municipality has executive authority in respect of, and has the right to administer

- a. the local government matters listed in Part B of Schedule 4 and Part B of Schedule 5; and
- b. any other matter assigned to it by national or provincial legislation.

A municipality may make and administer by-laws for the effective administration of the matters which it has the right to administer.

Subject to section 151(4), a by-law that conflicts with national or provincial legislation is invalid. If there is a conflict between a by-law and national or provincial legislation that is inoperative because of a conflict referred to in section 149, the by-law must be regarded as valid for as long as that legislation is inoperative.

The national government and provincial governments must assign to a municipality, by agreement and subject to any conditions, the administration of a matter listed in Part A of Schedule 4 or Part A of Schedule 5 which necessarily relates to local government, if

- c. that matter would most effectively be administered locally; and
- d. the municipality has the capacity to administer it.

A municipality has the right to exercise any power concerning a matter reasonably necessary for, or incidental to, the effective performance of its functions.

LOCAL MUNICIPAL PROFILE

SERVICE DELIVERY OVERVIEW

Ward	Households	Formal Dwellings (%)	Telephone at Home (%)	Electricity (%)	Sanitation (%)	Piped Water to Dwelling (%)
1	1394	40.3	9.0	73.2	2.5	58.4
2	1897	77.4	35.5	78.4	38.7	43.0
3	1693	56.9	13.9	67.6	6.7	23.2
4	1251	65.1	38.5	91.3	34.2	44.9
5	682	35.9	7.6	51.9	28.9	22.4
6	1344	63.0	26.6	68.9	26.0	65.7
7	1565	72.9	18.0	81.9	26.7	22.0
8	1299	7.9	0.0	74.7	0.3	26.1
9	1764	47.8	15.6	60.0	28.1	31.7

Statistics South Africa Household Services, Geography by Source of water for Household weighted 2011

Statistics South Africa Household Services ,Geography by Source of water for Household weighted 2011									
W/D	Regional/local water scheme (operated by municipality or other water services provider)	Borehole	Springs	Rain water tank	Dam/pool /stagnant water	River/ stream	Water vendor	Water tanker	Other
1	1274	14	1	10	27	1	15	8	7
2	1806	333	1	11	12	4	17	72	30
3	1430	457	5	9	17	-	2	50	8
4	1238	94	-	-	-	-	1	1	70
5	2569	112	-	11	1	1	1	7	59
6	513	185	-	3	2	1	-	3	12
7	2050	4	-	-	37	-	-	9	19
8	1177	-	-	-	1	-	1	4	19
9	2239	38	-	7	2	1	5	8	67
10	1333	5	6	-	1	-	2	5	26

1.3. SERVICE DELIVERY OVERVIEW

The Municipal Council must give priority to the basic needs of the community, promote the social and economic development of the community and ensure that all residents and communities in the municipality have access to at least the minimum level of basic municipal services in terms of Section 152(1) (b) and 153(b) of the Constitution.

The municipality is continuously making strides to ensure that services are continuously provided to the communities. Free Basic services contribute access to water, refuse, sanitation and electricity. The Indigent Subsidy Scheme was introduced by the municipality in order to provide basic services to poor households. On an annual basis the indigent register is reviewed and residents who qualify are encouraged to apply. The municipality subsidises the household with an income of R2 500 and less.

The Customer Care Unit in the municipality embarked on a Programme for Indigent Support and Indigent Renewals Registrations for all Masilonyana Units. This programme was supposed to have ended on the 26/02/2016 but was extended until 11/03/2016 because of poor turn up. It is believed that this poor turn up was because of the clashing of our Indigent programme and the ANC's Ward Councilors Mass Meetings Nominations.

An Indigent register was issued to all Councilors, CDW's & Ward Committee Members per wards before the 31/03/2016 for them to verify if all customers who are registered as Indigents really qualify as such or not and must indicate to the municipality those who do not qualify as indigents so that they can be removed from getting indigent subsidy. New registrations made amount to 796 people.

1.3.1 ELECTRICITY SERVICES

The municipality supplies electricity to all municipal towns which is Theunissen, Brandfort, Winburg, Verkeedevlei and Soutpan. The municipality supply all these towns with electricity except. Each town has got a location namely Masilo, Majwemasweu, Makeleketla, Tshepong and Ikgomotseng. Eskom supplies the locations and Soutpan with electricity. All the Street lights and High mast lights are maintained by the municipality.

In all three towns there are Eskom main sub stations except Verkeerdevelei. A sub station's work is to step down the 132 kv (supplied to it) to 11kv, by the main transformer. The 11kv will then be supplied to all minisubs in town. A sub station consists of electrical componets such as voltage transformer, current transformer, AC/DC panel, busbars, main transformer, etc. Brandfort, Theunissen and Winburg have 132 kv sub stations because they carry too much load. Verkeerdevelei is supplied by 22 kv medium voltage lines. It only has two 315 kva transformers. It doesn't have too much load. The municipality's main sub stations only has main circuit breakers. They need refurbishment (i.e panels, bulkmeter, another C/B)

The municipality developed and submitted business plans for all towns to source funding from Department of energy for refurbishment of electrical components. However no funding has been granted on these plans.

1.3.2 WATER SERVICE

The municipality continues to make strides to ensure that water is provided in all households. Due to the drought experienced in the country the municipality is experiencing a massive challenge in water supply, but strides were put in place.

The Department of water and sanitation has provided the municipality with 2 X 20 000 liters water tankers to supply water in communities especially the clinics and schools and also the high line areas.

Water restrictions were issued throughout the municipality from 18H00 to 06H00 in order to cater for communities who are living in the high line areas.

The strategic approach to the provision of water services is contained in the Infrastructure Master Plan as developed by the municipality during 2014 and approved by Council. The Bulk Water Supply Plan for all towns is contained in this Water Master Plan.

All planning culminates in the Three-year Capital Budget Programme, which speaks to the delivery of water services to meet domestic water needs, especially of the poor, and commercial/industrial water demands.

The municipality will continue to curb the water losses that is being experienced and unaccounted. Strict measures are continously enforced to deal with water wastage.

1.4. FINANCIAL HEALTH OVERVIEW

The financial year under review was a difficult period for the municipality in that the recovery of debtors deteriorated and the cash flow throughout the period was under pressure as a result of the following, litigations against the municipality, the judgments that was passed only in the financial year under review (2015/2016) on the matter that had occurred in at Verkeerdevlei 2011/2012. The municipality was sued for damages as a result of the fire wherein a total number of 12 farms were affected. The decision made by the court was that the municipality must carry the cost of R 6 304 878 including costs for damages. The other reasons relating to cash flow deteriorating was as a result of the Valuation Roll that was implemented in the financial year under review, with property values increased that has increased 3 times as compared to the previous years. Despite all cash flow challenges raised above, and the municipality having arrear creditors, the municipality managed to enter into payments arrangements with its creditors, which includes the bulk supplier of electricity and water, and fleet services

The challenges with regards to the recovery of debtors necessitated that the municipality put in place a strategy to address the deterioration of debtors not paying their municipal accounts. This was done in terms of a Revenue Enhancement Strategy, one of the pillars of the Strategy amongst others, is the improvement of Credit Control and review of organizational structure of Finance Department in particular. The municipality also managed to appoint a service provider for debt collection on debts owing over 90 days. The appointment was made during the course of December 2015. It envisaged that revenue collection will improve in the first quarter of 2016/2017.

The municipality maintained a reasonable healthy cash flow situation in the previous financial year 2014/2015. However this cannot be said in the financial year under review for the above stipulated reason. Management is certain that the municipality would still be able to operate into the foreseeable future and as a result the going concern assumption would not be affected. The Statement of Financial Position at 30 June 2016 indicates an increase in Net Assets, and a slight increase in Current Liabilities and a decrease in Non-current Liabilities. These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) including any interpretations, guidelines and directives issued by the Accounting Standard Board. The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of the surplus generated on the operating account. The decrease in Non-current Liabilities is primarily as a result of the decreases in Retirement Benefit Liabilities and Long-service Benefits and Financial liability. The increase in Current Liabilities is primarily as a result of the increase in Creditors and Finance lease obligation and Vat payable.

Financial Overview: 2015/2016			
Details	Original Budget	Adjustment Budget	Actual
Income:			
Grants	117 393 000	126 293 583	155 631 208
Taxes, Levies and tariffs	101 308 000.00	126 236 000.00	111 667 298
Other	20 155 000	11 964 000.00	8 959 161
Sub total	230 295 000	264 493 583	276 257 667
Less: Expenditure	243 903 000.00	242 186 000.00	276 054 876
Net total	-13 608 000	22 307 583	202 791
Note: surplus/ defecit	-13 608 000	22 307 583	202 791

Financial Ratios	
Detail	%
Employee Cost	40%
Repairs and Maintenance	4%
Finance Charges & Impairment	4%
Liquidity ratio	0.1
Debt ratio	1:4

The top table on financial ratios depict that the assets of the municipality are more than its liability, which can be used as security or to pay off its debts in future uncertain economic times. The municipality is not financial sustainable, in terms of the liquidity ratio, this means that the municipality maintains low cash-flow and is unable to pay meet its obligation. Challenges relating this matter are as result of over indebtedness of creditors. Although there is a significant increase from prior- year on Repairs and Maintenance of the municipality, there is still insufficient monies spent on ageing infrastructure assets. This cannot be afforded as the repairs and maintenance is funded internally and looking at the liquidity ratio, the municipality is not financial sustainable, this means there is still a lot that the municipality needs to do to improve its cash and enhance revenue collection.

Total Capital Expenditure: Year -2 to Year 0			
Detail	2013/14	2014/15	2015/16
Original Budget	59 856 229.00	73 743 000.00	33 790 000.00
Adjustment Budget	59 856 229.00	73 743 000.00	44 479 000.00
Actual	59 856 229.00	73 250 745	37 449 045.00

During 2013/14 and 2014/15 the municipality budgeted for RBIG and MIG and spent 100% and 99% respectively. In the 2015/16 the Municipality had budgeted for MIG and ACIP, ACIP spent 100% and MIG spent 68% of the budgeted due to cashflow problems.

1.5. ORGANISATIONAL DEVELOPMENT OVERVIEW

The Municipality had a total workforce of 511 permanent and as at 30 June 2016. Critical vacancies that relate to Senior Managers still served as a challenge to the Municipality. The following vacancies were not filled: Director Infrastructure and Technical Services, Director Corporate Services and Director Integrated Planning. However the municipality made strides in ensuring that there is an acting person in Infrastructure and Technical Services Department.

The Directorate Corporate Services is responsible for support services which include the Secretariat, Typing Services, Interpreter, Archives, Switchboard, Cleaning, Legal, Human Resources, Skills Development, Administration and Council Support. The department also deals with issues such as training, recruitment and skills development of employees.

Employees participated in different learning programmes and interventions during the 2015/16 financial year in terms of the Workplace Skills Plan submitted to LGSETA. Graduates and experiential learners received training in various fields (on the job training).

The Municipality also made tremendous strides in improving organizational performance since the history of the municipality. During 2015/2016 financial year, Masilonyana Municipality reviewed its IDP. A Process Plan, paving the way for ensuring an inclusive and comprehensive IDP process and culminated in the adoption of the 2015/16 (Revised) IDP during May 2016. The process was also marked by a renewed commitment to ensuring that the organisational structure, human resources, skills and capacity entrenched in its officials and councillors all contribute immensely to the successful execution of the municipal strategy.

The Municipality also reviewed and approved its Organogram during 30 June 2016. This will ensure successful filling of critical position across the municipality.

Report of the auditor-general to the Free State Legislature and the council on the Masilonyana Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Masilonyana Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of Grap) and the requirements of the Municipal Finance Management Act, 2003 (Act no.56 of 2003) (MFMA) and the Division of Revenue Act, 2015 (Act no.15 of 2015) (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 these financial statements based on conducting the audit in accordance with the International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for work in progress included in property, plant and equipment due to insufficient record keeping by the municipality. Furthermore, not all infrastructure assets and work in progress projects accounted for in the asset register could be verified, while certain land, infrastructure assets and movable assets were not included in the asset register. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment, stated at R634 078 239 (2015: R600 794 937) in note 10 to the financial statements, was necessary. In addition, the

municipality classified land and buildings as property, plant and equipment, although it was uncertain that the future economic benefits or service potential associated with the buildings will flow to the municipality in accordance with SA Standards of GRAP, GRAP 17, *Property plant and equipment*. Consequently, land included in property, plant and equipment was overstated by R14 346 320 and accumulated surplus understated by R14 346 320.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence regarding trade payables included in payables from exchange transactions, as creditor reconciliations were not performed. I was unable to confirm these trade payables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to trade payables, stated at R99 174 704 (2015: R74 661 899) in note 14 to the financial statements. In addition, the municipality did not record all invoices received from suppliers before the year end as trade payables in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Consequently, trade payables and expenditure were understated by R18 329 298 (2015: R5 458 743). There was a consequential impact on the deficit for the period and on the accumulated surplus.

Service charges

6. I was unable to obtain sufficient appropriate audit evidence that all service charges were accounted for on the billing system for 2015-16, due to insufficient record keeping. I was unable to confirm the income by alternative means. Consequently, I was unable to determine whether any adjustment to service charges, stated at R88 250 813 in note 20 to the financial statements, was necessary. In addition, incorrect tariffs and consumption were levied to consumer accounts, resulting in service charges and consumer debtors being overstated by R45 863 428. There was a consequential impact on the deficit for the period and on the accumulated surplus.

Investment property

7. I was unable to obtain sufficient appropriate audit evidence for investment properties as it is unclear whether a formal decision was taken relating to the use of these properties. I was unable to determine how these properties should be accounted for by alternative means. Consequently, I was unable to determine whether any adjustment relating to investment properties, stated at R68 183 789 (2015: R69 034 281) in note 9 to the financial statements, was necessary. In addition, the municipality classified land and buildings as investment properties, although it was uncertain that the future economic benefits or service potential that are associated with the building will flow to the municipality in accordance with SA Standards of GRAP, GRAP 16, *Investment property*. Consequently, investment properties were overstated by R18 808 129 (2015: R19 254 428) and accumulated surplus understated by R18 808 129 (2015: R19 254 428).

Property rates

8. I was unable to obtain sufficient appropriate audit evidence that all property rates were accounted for on the billing system for 2015-16, as evidence that all properties were included on the valuation roll could not be provided and proper reconciliations between the valuation roll and the billings system were not done. I was unable to confirm the property rates by alternative means. Consequently I was unable to determine whether