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The Municipal Manager
Mr Stan Wallace
TWK Municipality
Caledon

Dear Mr Wallace

COMMENTS ON THE 2009 FINANCIAL STATEMENTS

In response to both a request from Greyton Ratepayers and Residents Organisation (GRRO) and your call for comments, I have done an in-depth study of the figures in TWK Municipality's 2009 financial report and have compiled the following feedback for your information and action.

Please be assured that all remarks included in this report are not meant to be taken as criticism. My only objective is to understand the financial workings of TWKM and to learn as much as possible about the way the municipal finances are structured and managed.

Before going any further, I would like to congratulate TWKM on the contents and way in which the report was structured and presented. It is, as you know, a substantial document and as someone experienced in these matters, I found the document - and thinking behind it - very impressive.

However, I feel that there is room for improvement. This is borne out by the comments given in the Auditor General's report.

GRAP standards

We understand that GRAP is new and that the implementation has had an effect on the accuracy of the numbers. I hope that in this financial year that GRAP will be fully grasped by the financial department and that figures reported will conform to the national standards.

Were these standards used when the 2010 budget was compiled? This is important to ascertain the accuracy of the budget in terms of GRAP standards. If there are deviations from these standards in the budget, it is important to be aware of this as it will impact the variances between actuals and budget.

Cost centre accounting

I am aware that the next issue is a sensitive point, but I would like once again to promote the idea of cost centre accounting for the municipality. There are at least four good reasons for this:

1. Transparency for taxpayers is an important issue and is supported by the constitution of this country;
2. Cost centre accounting would help establish the amount of cross subsidisation that takes place within the TWKM and would help to track whether this is being controlled or is simply rising exponentially year on year;
3. It would also assist the various town managers within the TWKM to manage the financial affairs of their particular area;
4. It would provide the opportunity to compare actual results with budgeted results on a monthly basis.

In addition, your report states that it is your intention to introduce activity based costing, which is doomed to failure without being supported by cost centre accounting.

As ascertained from the report under discussion it is clear that the income and expenses for each area could be extracted manually and in view of the importance of this information I would like to request that this be done.

General

While working on this project it has become clear to me that there are some inconsistencies with regard to figures, particularly operating revenue and expenditure in respect of actual and budgeted figures for the 2009 year.

In support of this claim, attached please find annexures A, B, C, D, E, F and G, summarised as follows:

2009 Actual figures reported

Annexure	Expenditure	Revenue to date	Property rates
A	210,412,092	239,983,548	37,030,000
B	208,656,535	213,849,444	34,400,000
C	208,656,535	218,778,779	N/A
D	218,180,000	187,827,000	38,929,000

2009 Budgeted figures reported

Annexure	Expenditure	Revenue to date
E1 and E2	266,017,000	266,925,000
A	258,867,000	258,867,000
C	230,374,000	235,916,000

In view of the above, I would be grateful to receive the **budgeted** numbers for 2009 in the same format as the actual numbers on pages 69 and 70 of your report.

Income statement

In the income statement there is a cost item called *Debt Impairment Costs* amounting to R24,676,453. I would like to know what this figure represents and how it was calculated.

The general expenses in the income statement amount to R24,676,453. Please may I have a breakdown of this expenditure.

Rates discrepancy

In Annexure D it was reported that the rates for the year were R38,929,000. In the final audited accounts, this figure came down to R34,400,000. How did this happen?

Government grants

I would like an explanation of how the figure for government grants is reached. An understanding of this process will help to assess whether this resource is being optimised and whether or not the TWKM could apply for additional funding of this nature. My understanding is that the norm for government grants is 4 percent of total revenue. The figure for 2009 indicates that this figure is 27 percent of revenue. What would the impact of this discrepancy be on future grants?

Long-term loans

These amounted to R88-mil, representing 44 percent of net assets. What is your policy in this regard? In other words, what percentage is an acceptable norm for TWKM.

Capital investment

Your report states that R25-mil that was allocated was not spent. I would like to know how much of this was carried forward into the 2010 budget?

I also note that there were no contingent liabilities in respect of capital investment in the financial statements. What is the total amount needed by TWKM to fulfil all its commitments in terms of projects that require attention, but had not been addressed up to June 2009?

Debtors

It has been noted that the provision for bad debts increased by R8,4-mil. I would also like to establish the total bad debts written off in 2009 and where this figure is reflected in the income statement.

Please advise why the figure allocated for provision for bad debts increased so significantly in one year? What has been budgeted for bad debts in the 2010 year? These figures will help us establish the trend and what the financial impact of this will be on ratepayers.

The outstanding debtors on page 132 of your report amounts to R85,467,000. I would like to know where this number is reflected in the notes to the balance sheet?

Balance sheet

Could I please have your budgeted balance sheet as at 30 June 2009 and also for 2010?

The employee benefits liability in the balance sheet amounts of R90-mil. Please confirm whether this figure was verified by an actuary?

Personnel

Normal business practice is to set personnel costs as a percentage of revenue. Do you have such a norm and, if so, what is the figure in terms of percentage?

I would also like to know whether there were any vacancies at TWKM at the end of June 2009.

Reported performance information

It is our understanding that various issues were highlighted in the auditor general's report as needing attention. Are these being addressed in order to satisfy the requirements of the auditor general during the next audit?

Thank you for this opportunity. I hope that you accept these comments in the spirit in which they are made, which is to build a mutually beneficial relationship.

Yours sincerely

Johan Cilliers CA(SA)