CFO FORUM MEETING

5 Maart 2012

OPERATION CLEAN AUDIT : 2014

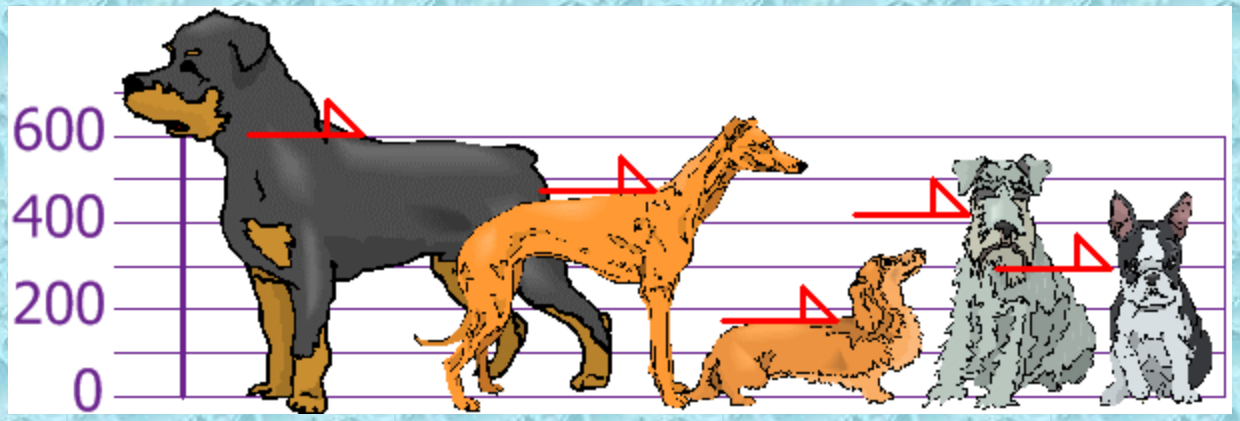
- Launched by former National Minister Shiceka on 14 July 2009 at Boksburg
- Auditor General indicated w r t the 2006/2007 financial year the following:
  - 253 out of 283 audits had been finalised
  - only 56 municipalities received unqualified audits (19,8%)
  - 130+ municipalities already insolvent
  - 168 CFO's cannot compile financial statements/manage the compilation
- Operation CLEAN AUDIT supported and endorsed by premier Zille at the August 2009 PCF held in Mossel Bay

Local Government's challenge is to render economical, effective and efficient services

- Lack of Standards
- Lack of SOP's

Example

You and your friends have just measured the heights of your dogs (in millimeters):



The heights (at the shoulders) are: 600mm, 470mm, 170mm, 430mm and 300mm.

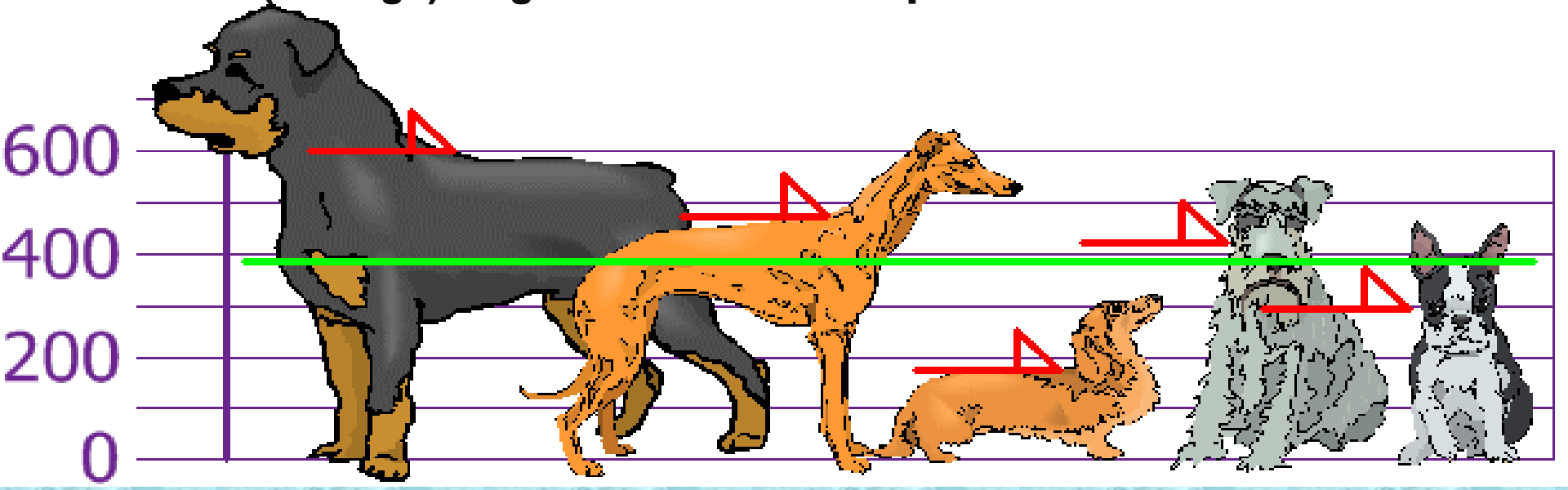
Find out the Mean, the Variance, and the Standard Deviation.

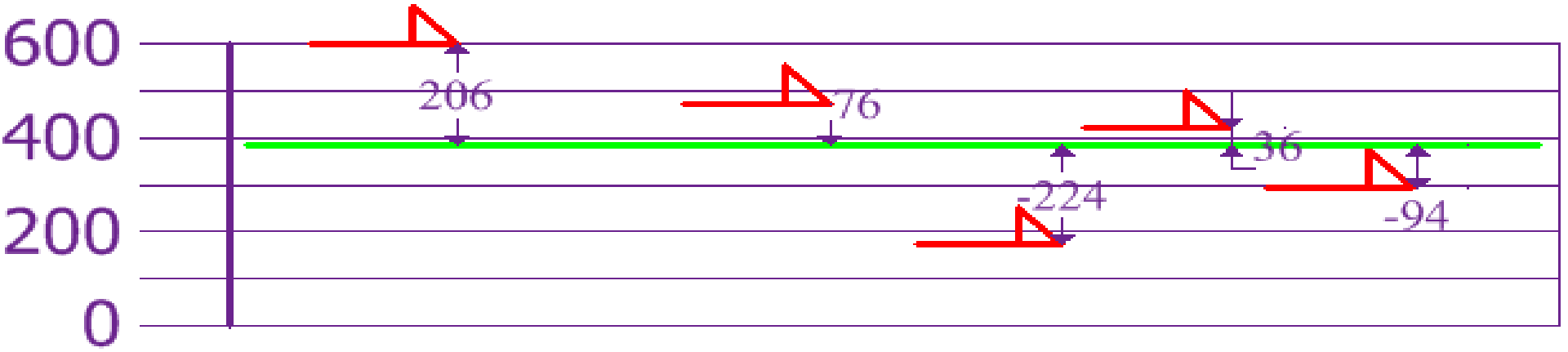
Your first step is to find the Mean:

Answer:

$$\text{Mean} = \frac{600 + 470 + 170 + 430 + 300}{5} = \frac{1970}{5} = 394$$

Now, we
so the mean (average) height is 394 mm. Let's plot this on the chart:





To calculate the Variance, take each difference, square it, and then average the result:

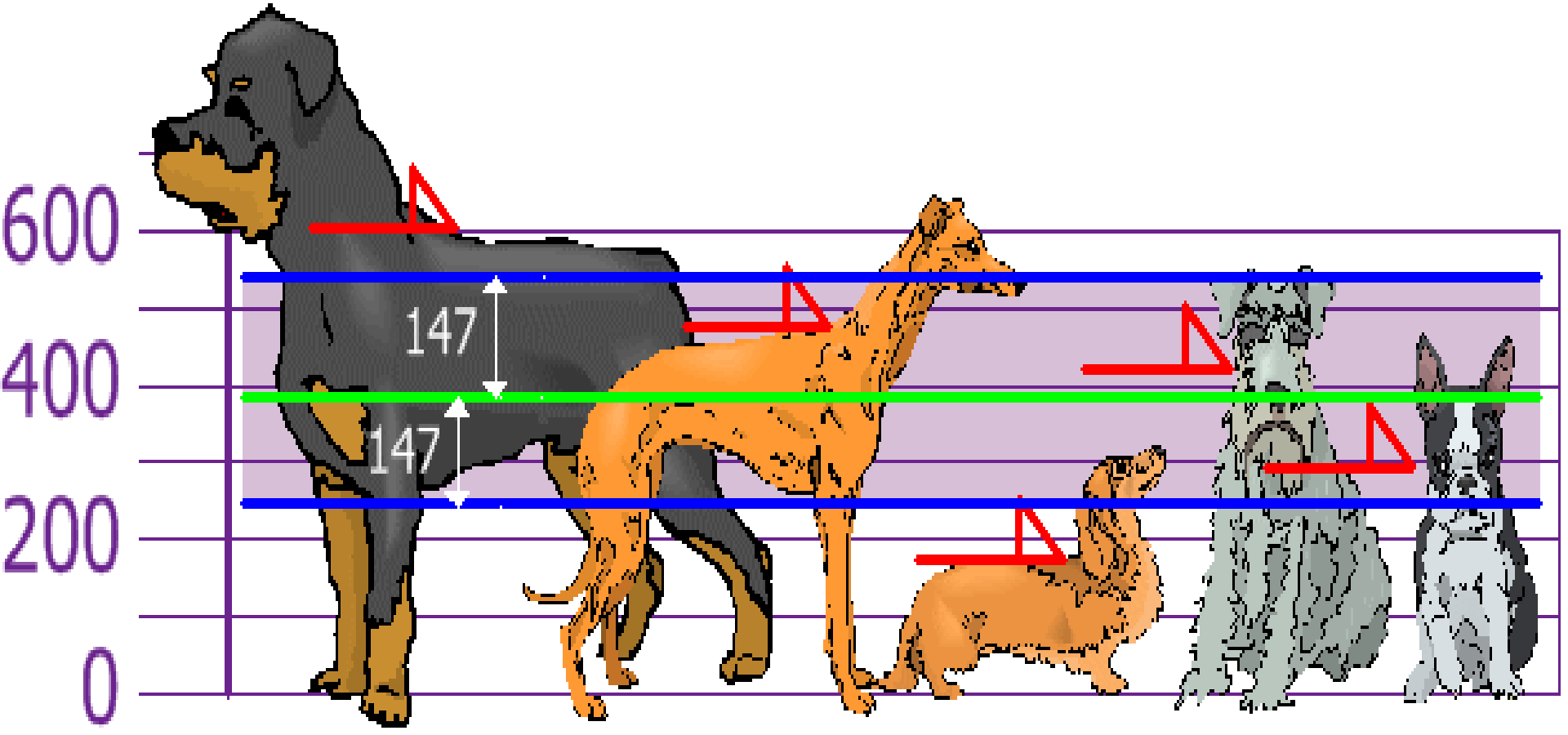
$$\text{Variance: } \sigma^2 = \frac{206^2 + 76^2 + (-224)^2 + 36^2 + (-94)^2}{5}$$

$$= \frac{42,436 + 5,776 + 50,176 + 1,296 + 8,836}{5}$$

$$= \frac{108,520}{5} = 21,704$$

So, the Variance is 21,704.
And the Standard Deviation is just the square root of Variance, so:
Standard Deviation: σ = √21,704 = 147.32... = 147 (to the nearest mm)

And the good thing about the Standard Deviation is that it is useful. Now we can show which heights are within one Standard Deviation (147mm) of the Mean:



So, using the Standard Deviation we have a "standard" way of knowing what is normal, and what is extra large or extra small.

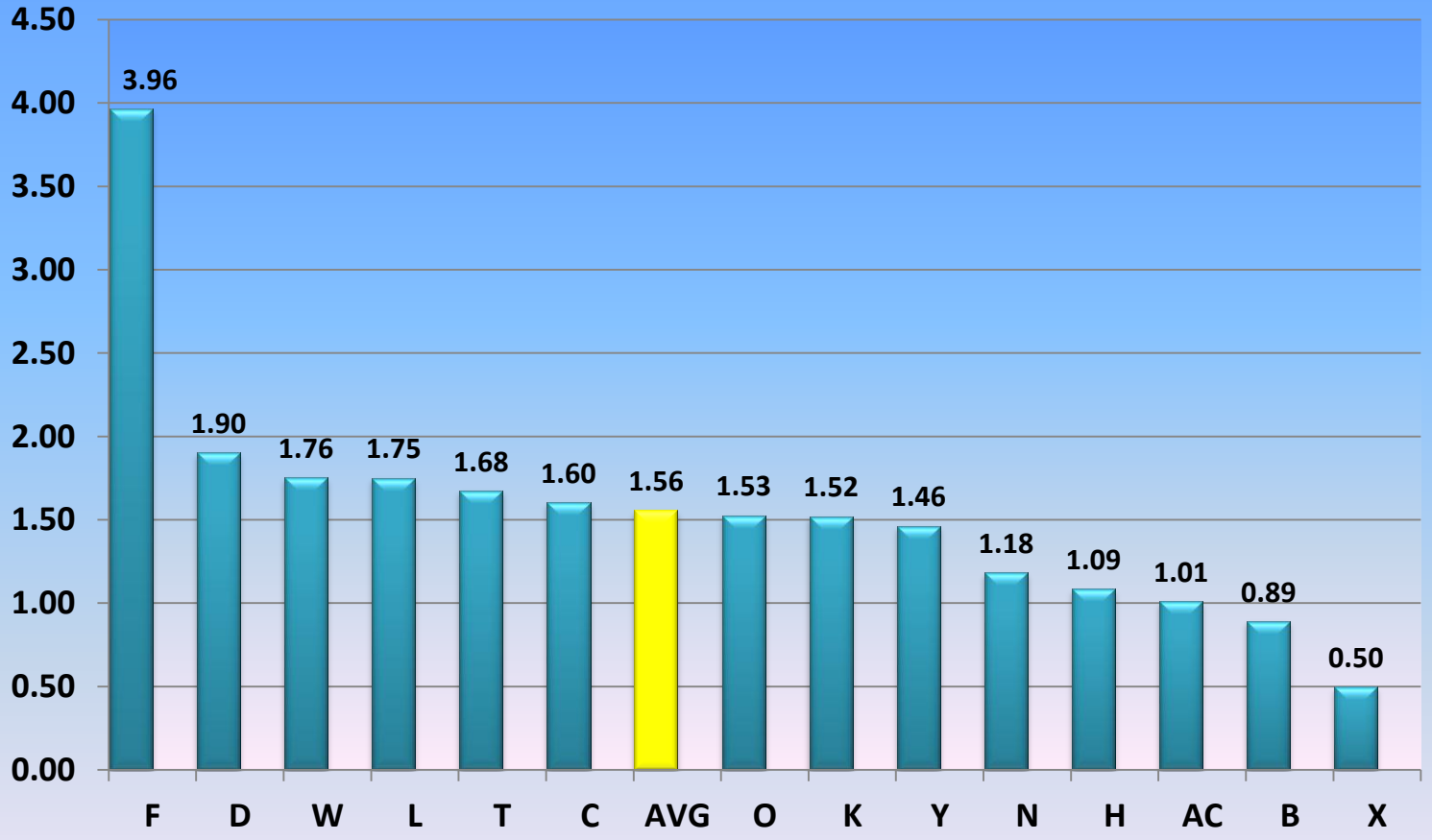
Rottweilers are tall dogs. And Dachshunds are a bit short ... but don't tell them!

Current Ratio

- This Ratio determines whether there is sufficient cash to finance operational requirements

- Current Assets / Current Liabilities

Current Ratio



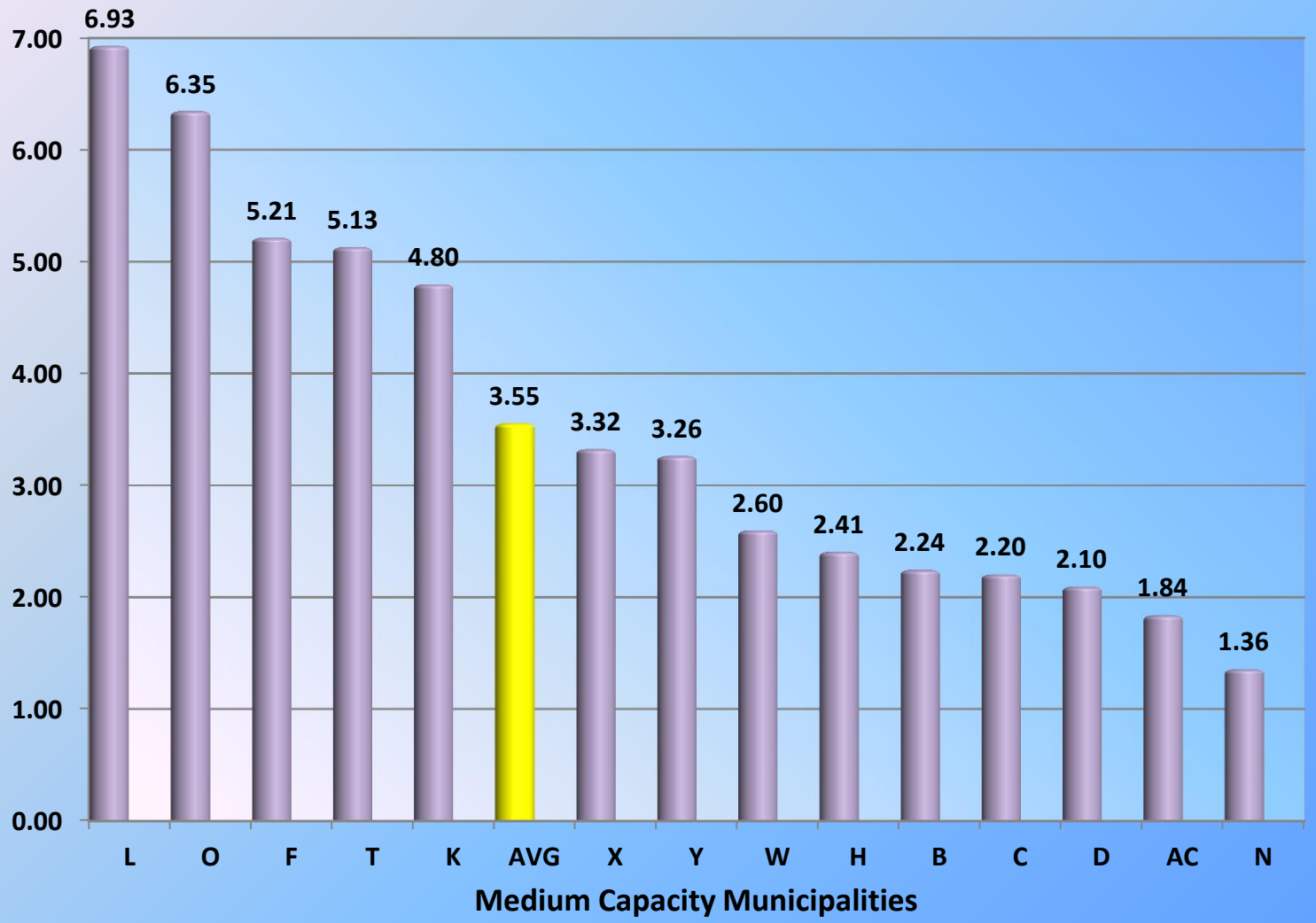
Medium Capacity Municipalities

Turnover of Accounts Receivable

- This Ratio indicates how often in a year all debtors on average pay back what they owe the municipality. The higher the value, the better, indicating that accounts receivable are often fully paid.

- Revenue Credit / Accounts Receivable

Turnover of Accounts Receivable

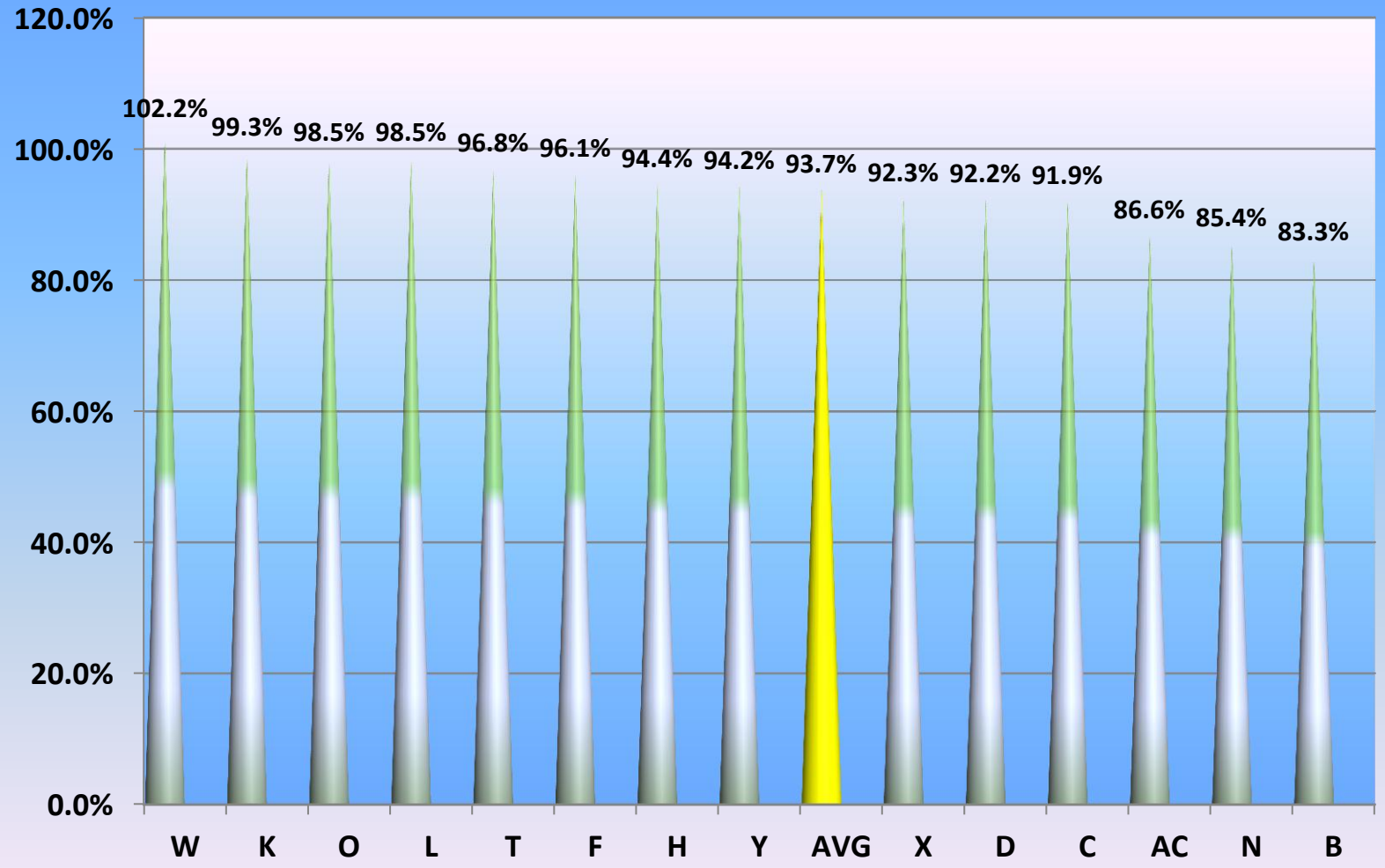


Debtors payment level

- This ratio show if all debt that the municipality charged is collected

- (Debtors beginning of year + Income from Rates + Income from Services - Debtors end of year - Amount Written off during year) / (Property Rates + Service Charges + Interest on Debtors)

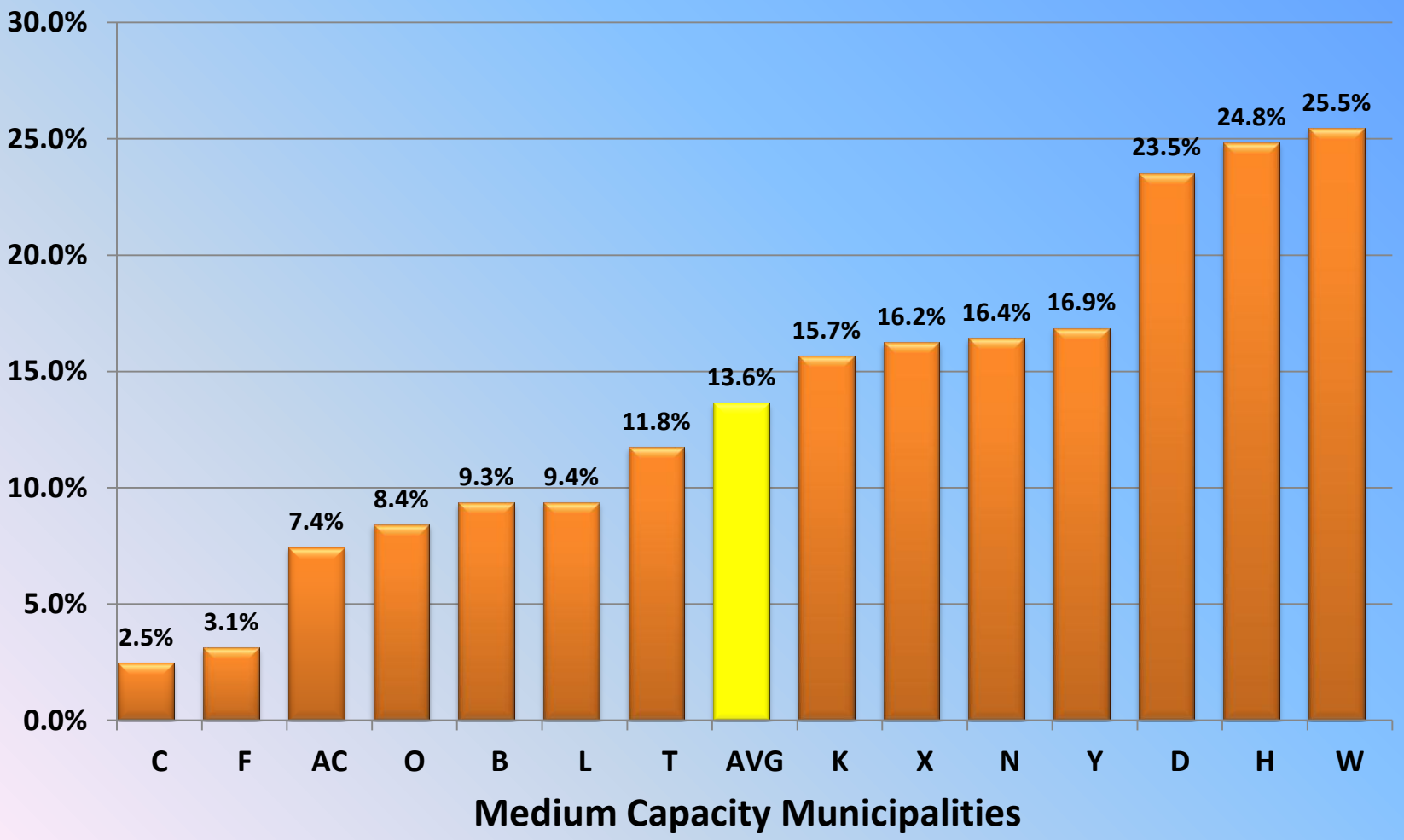
Debtors payment level



Borrowing to Asset Ratio

- Total Long-Term Borrowing/Total Assets

Borrowing to Asset Ratio -

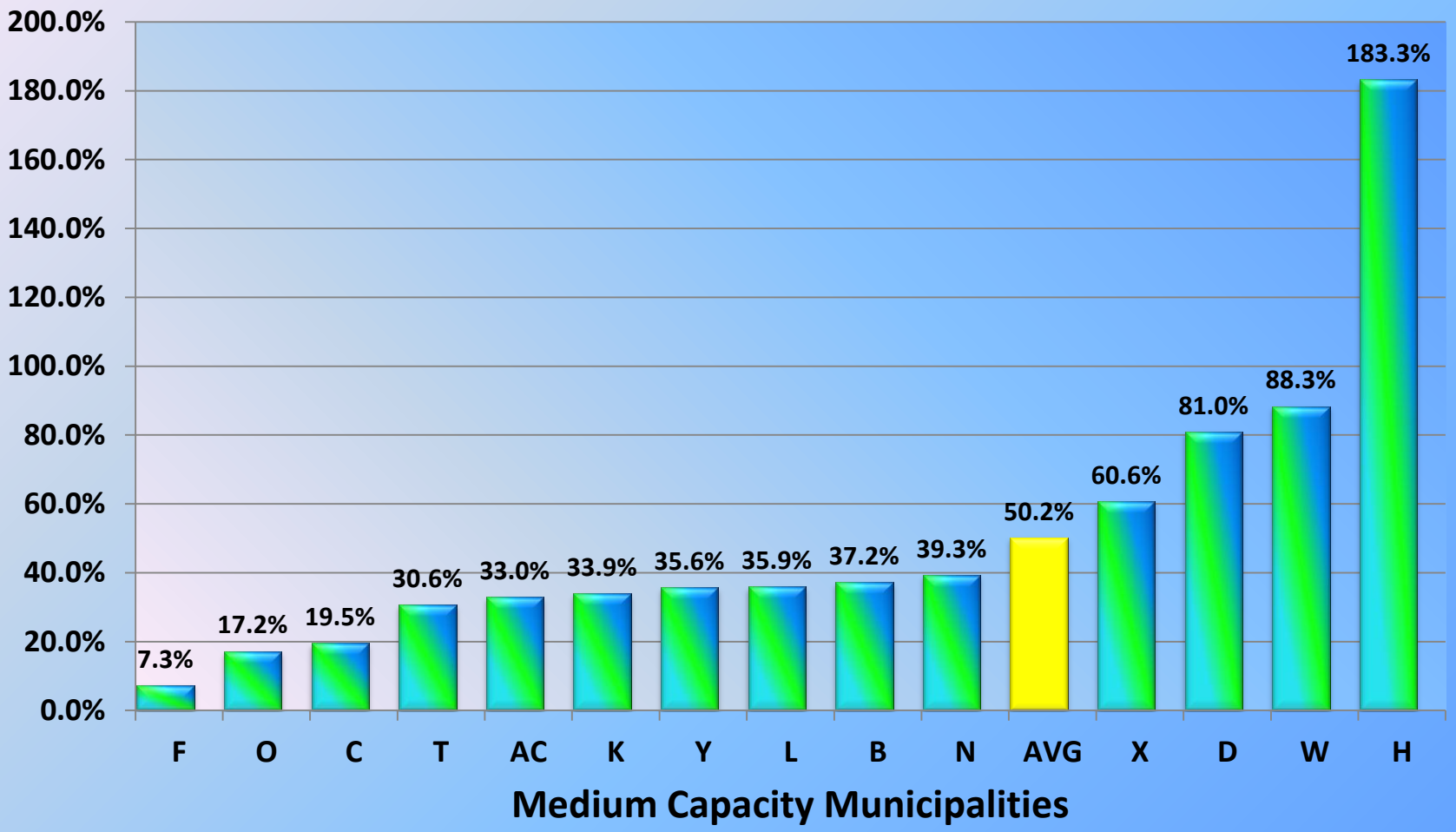


Debt to Equity

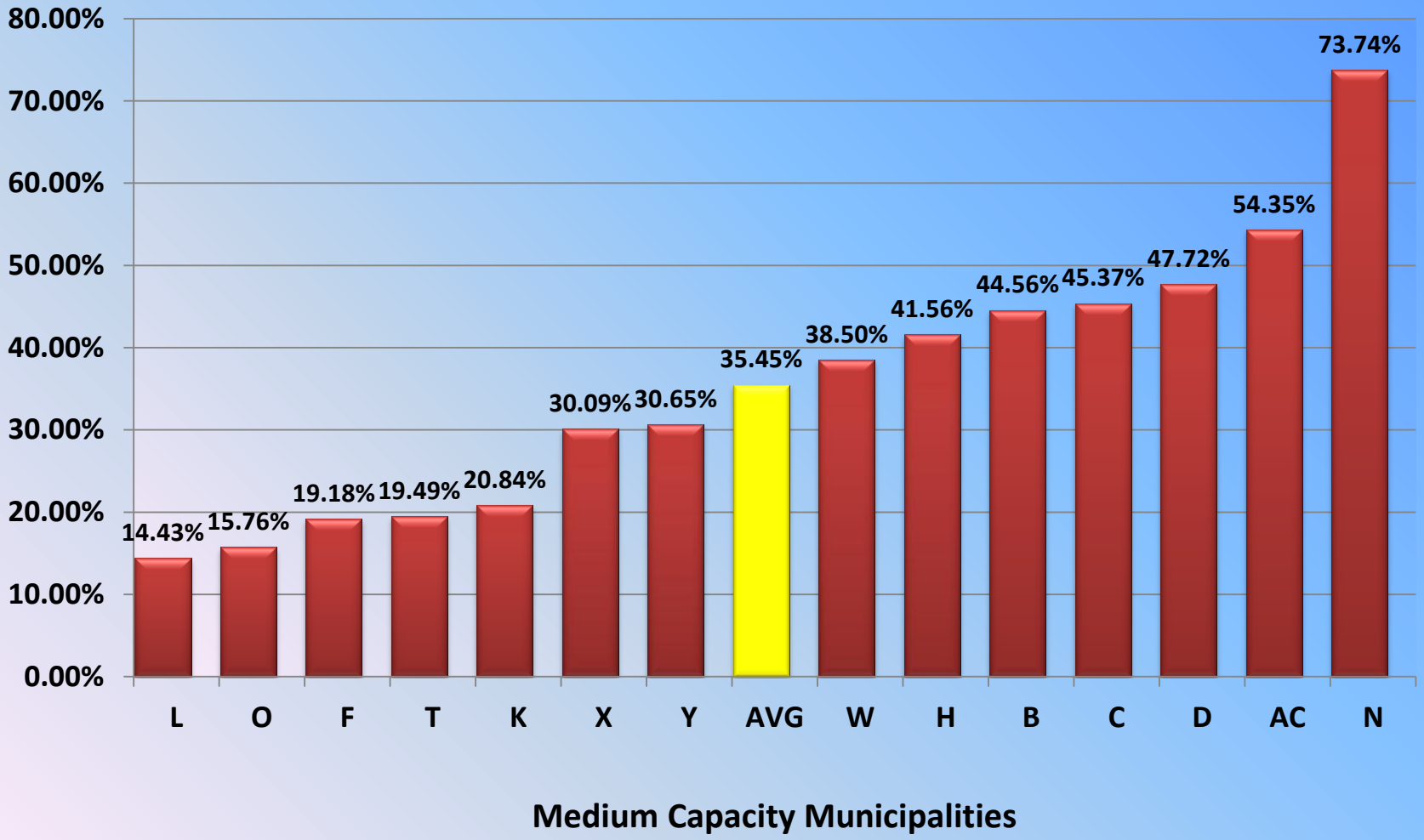
- A widely used financial statement ratio to assess the overall debt load of a municipality's and its capital structure, it equals total liabilities
divided by total equity. Both numbers for this ratio are taken from a municipality's latest balance sheet.
- Indicator of financial leverage.

- **Loans, Creditors, Overdraft & Tax Provision/ Funds & Reserves**

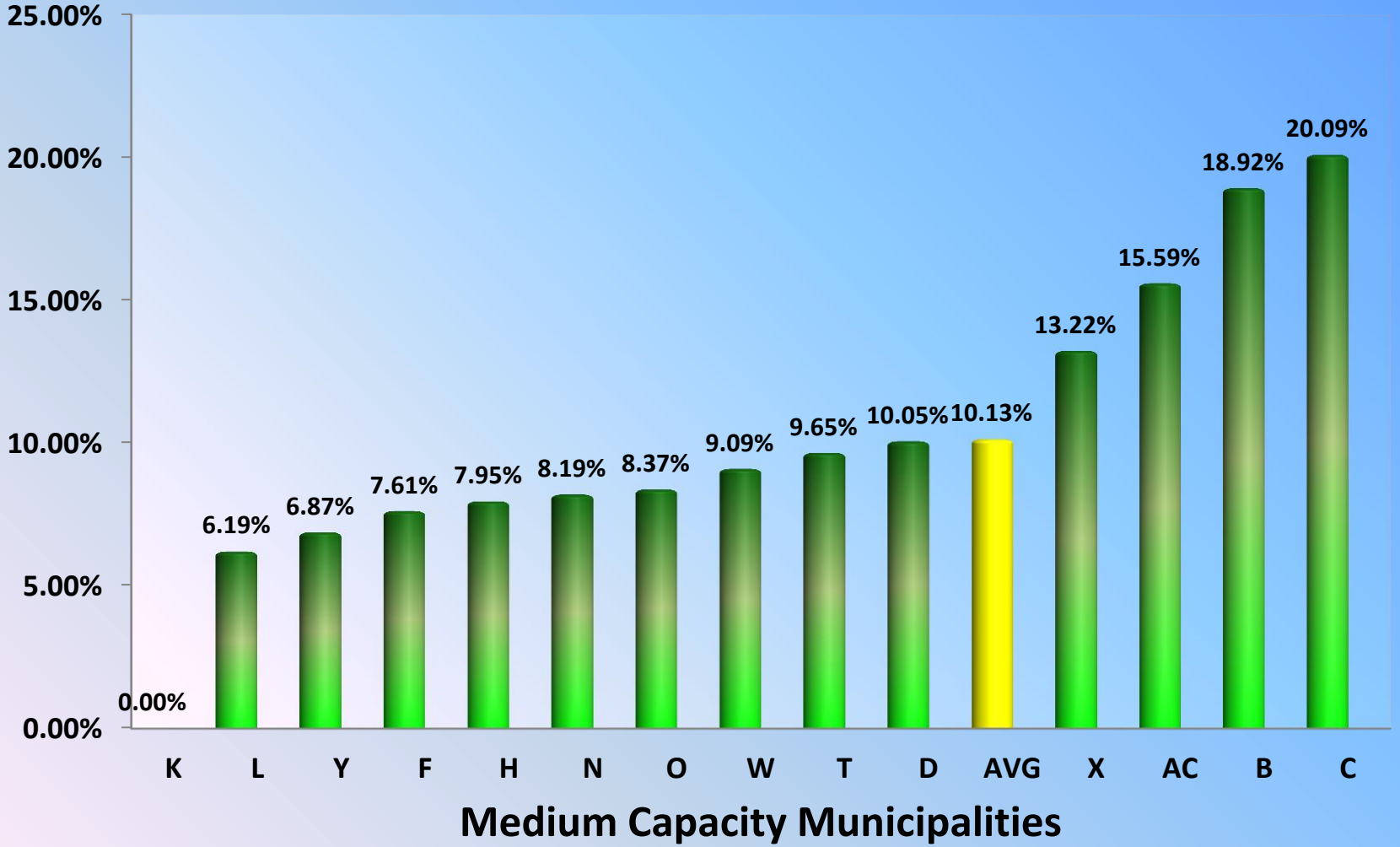
Debt to Equity



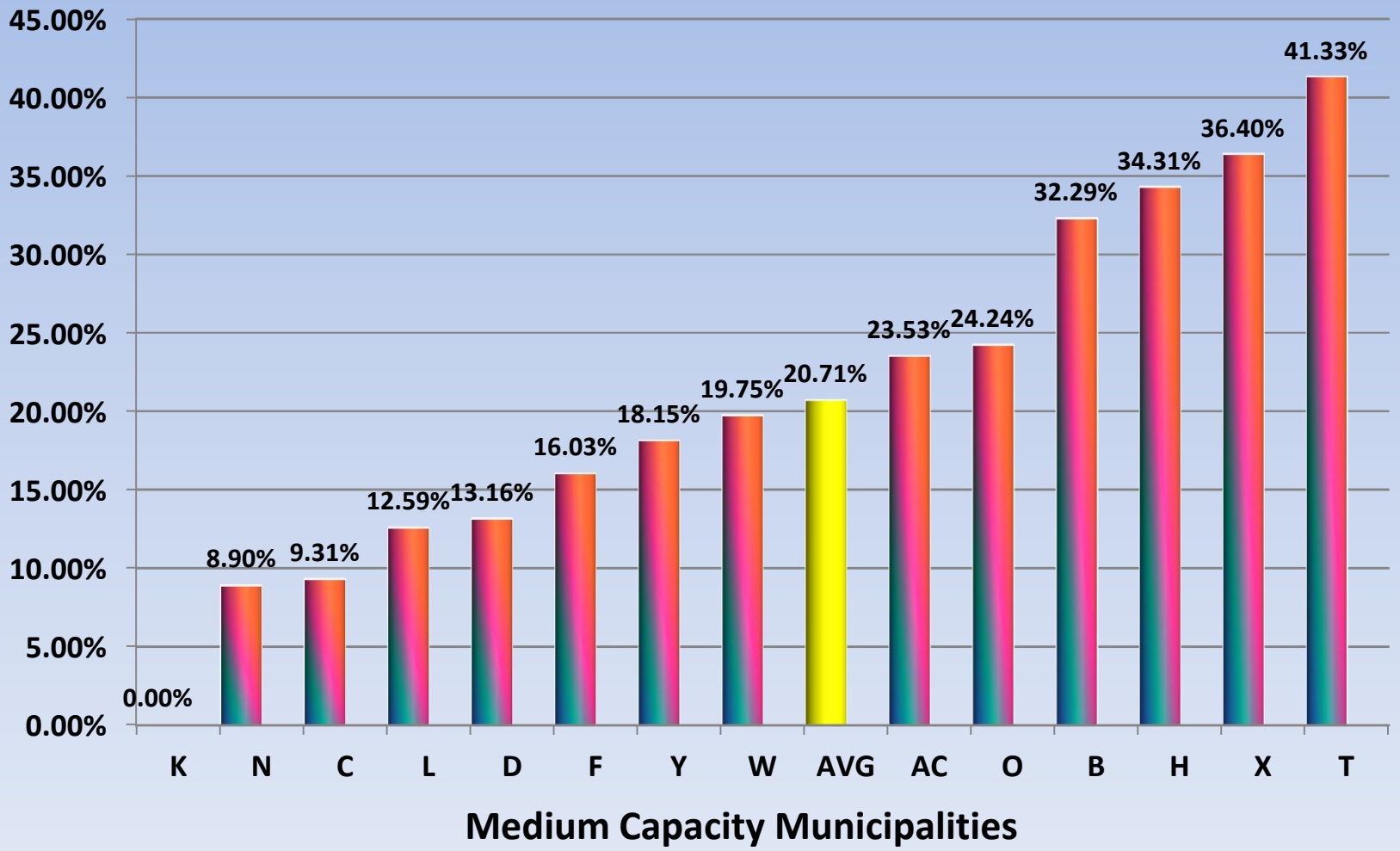
Outstanding Debtors to Revenue - Total Outstanding Debtors to Annual Revenue



Electricity Distribution Losses - % Volume (units purchased and generated less units sold)/units purchased and generated



Water Distribution Losses - % Volume (units purchased and own source less units sold)/Total units purchased and own source

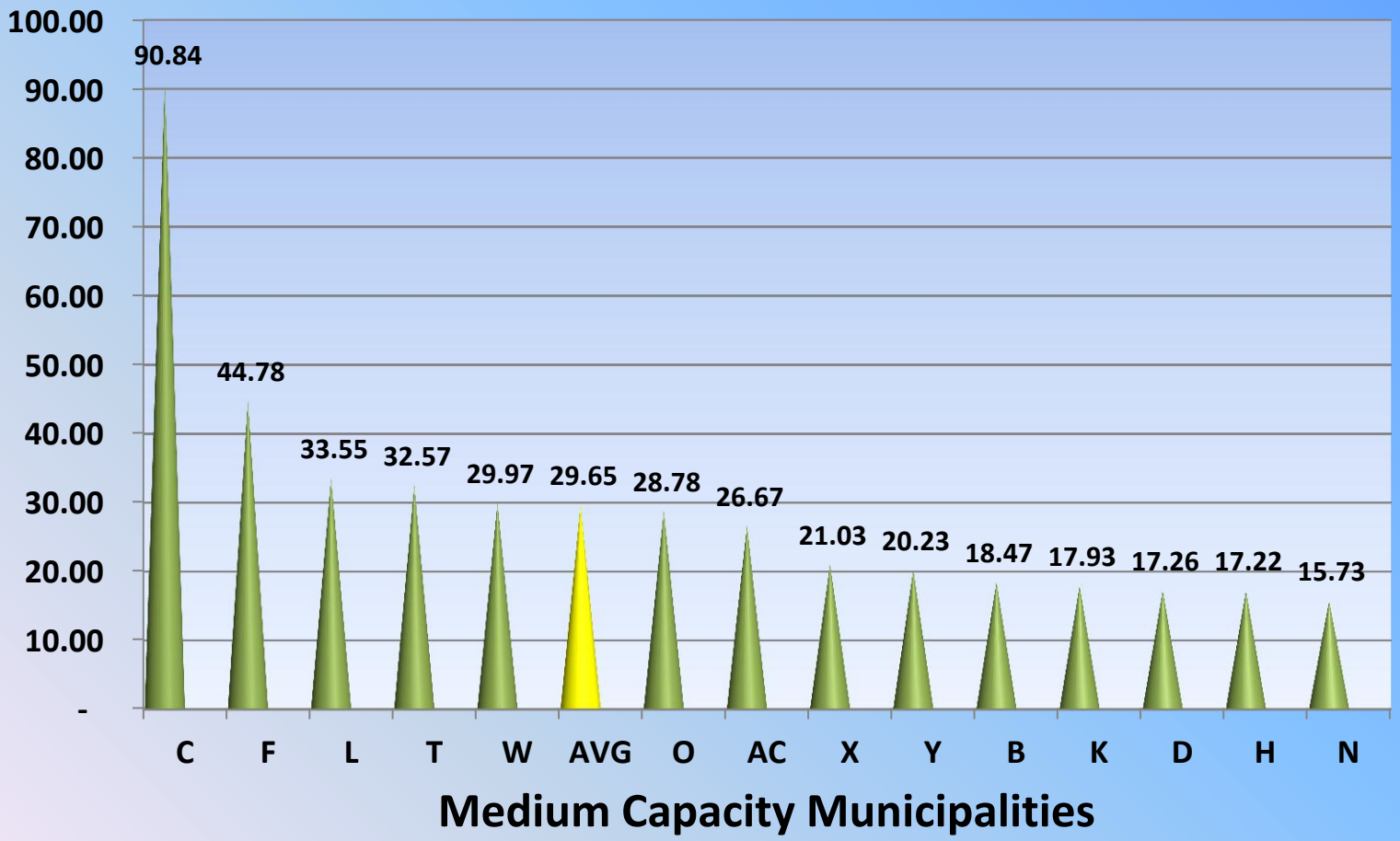


Debt coverage Ratio

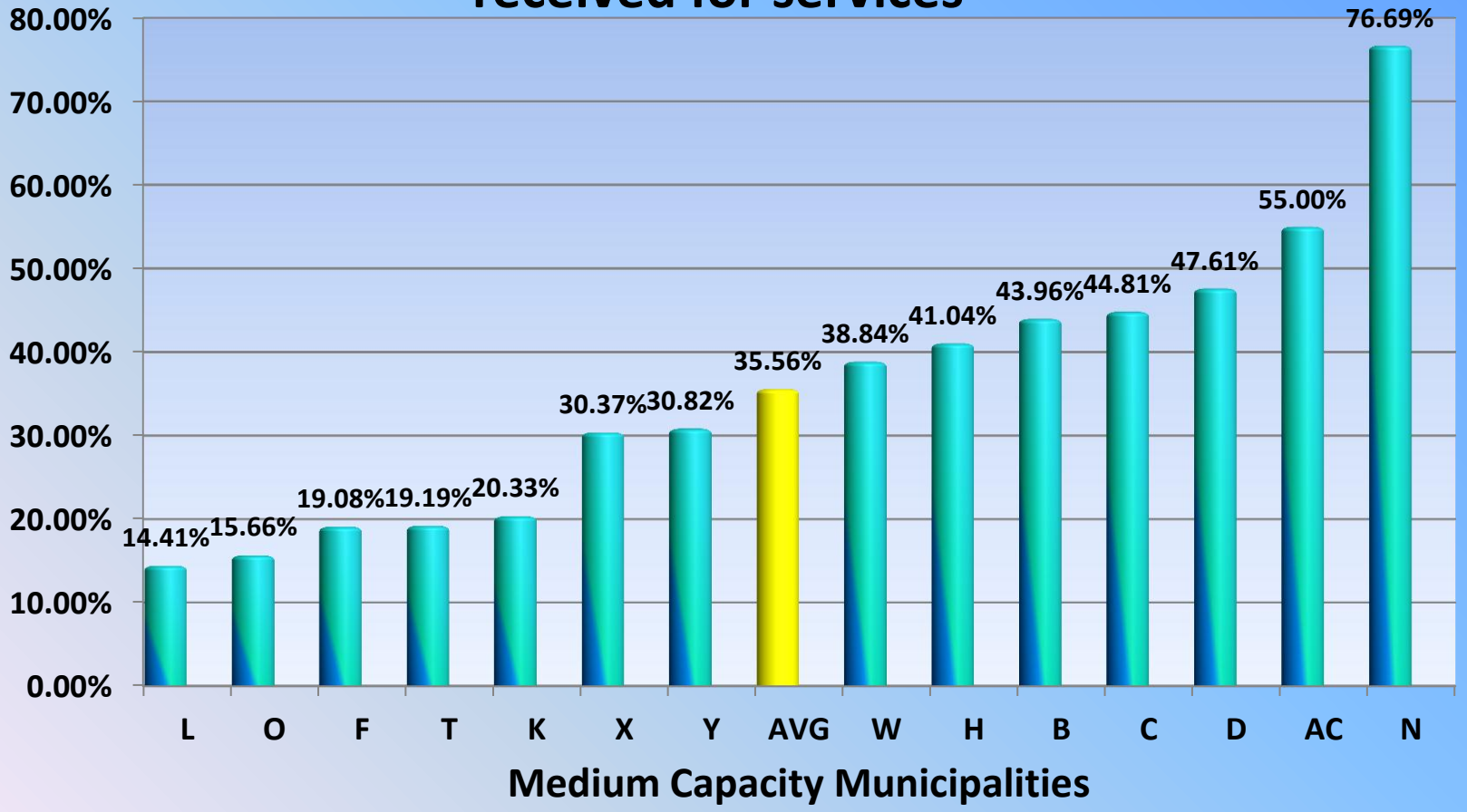
- The **debt service coverage ratio** (**DSCR**), also known as "debt coverage ratio," is the ratio of cash available for debt servicing to interest, principal and lease payments. It is a popular benchmark used in the measurement of an entity's (person or corporation) ability to produce enough cash to cover its debt (including lease) payments. The higher this ratio is, the easier it is to obtain a loan.

- **(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)**

Debt coverage



O/S Service debtors to Revenue - Total outstanding service debtors/annual revenue received for services



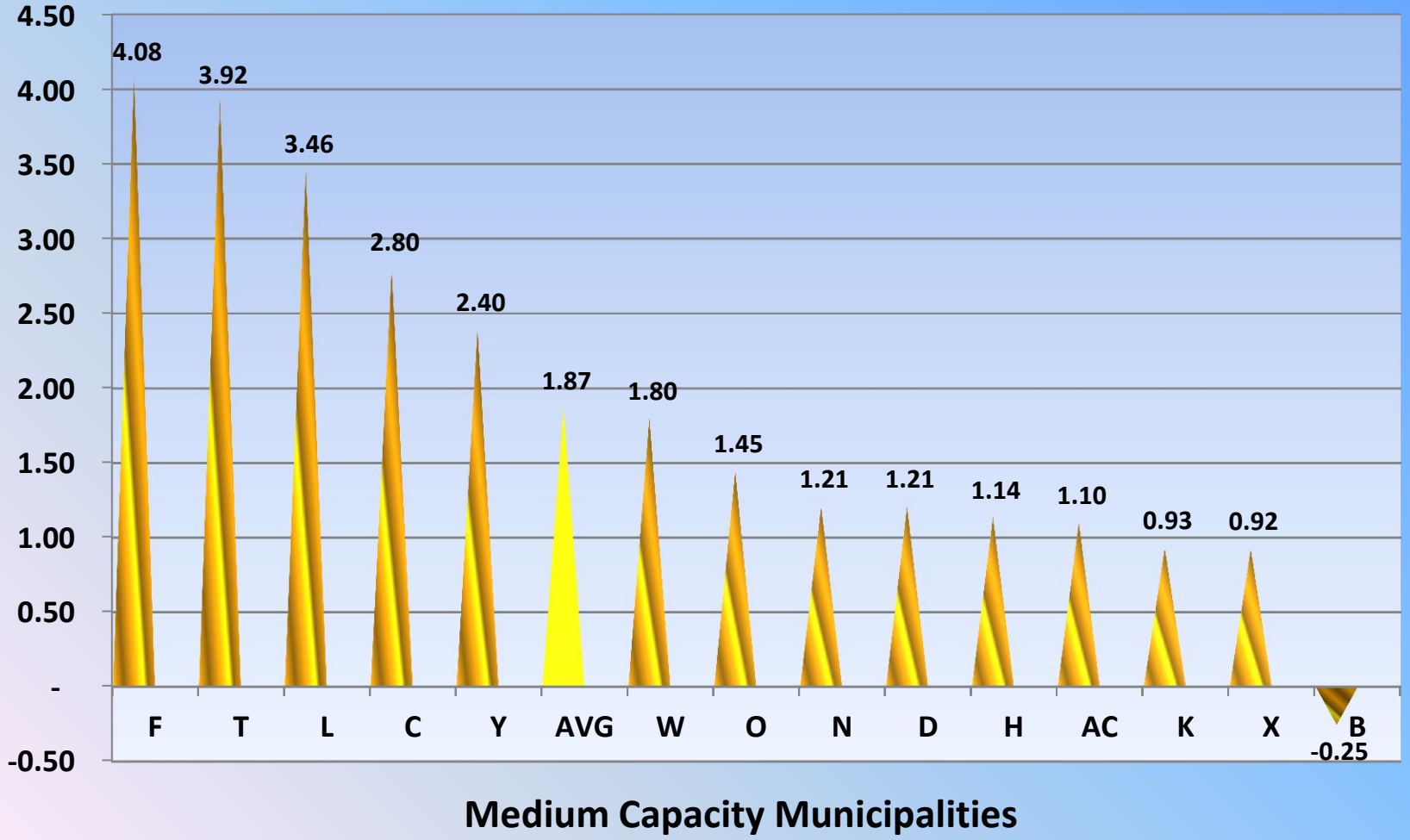
Cost Coverage

- A measure of a municipality's's ability to meet a particular expense.

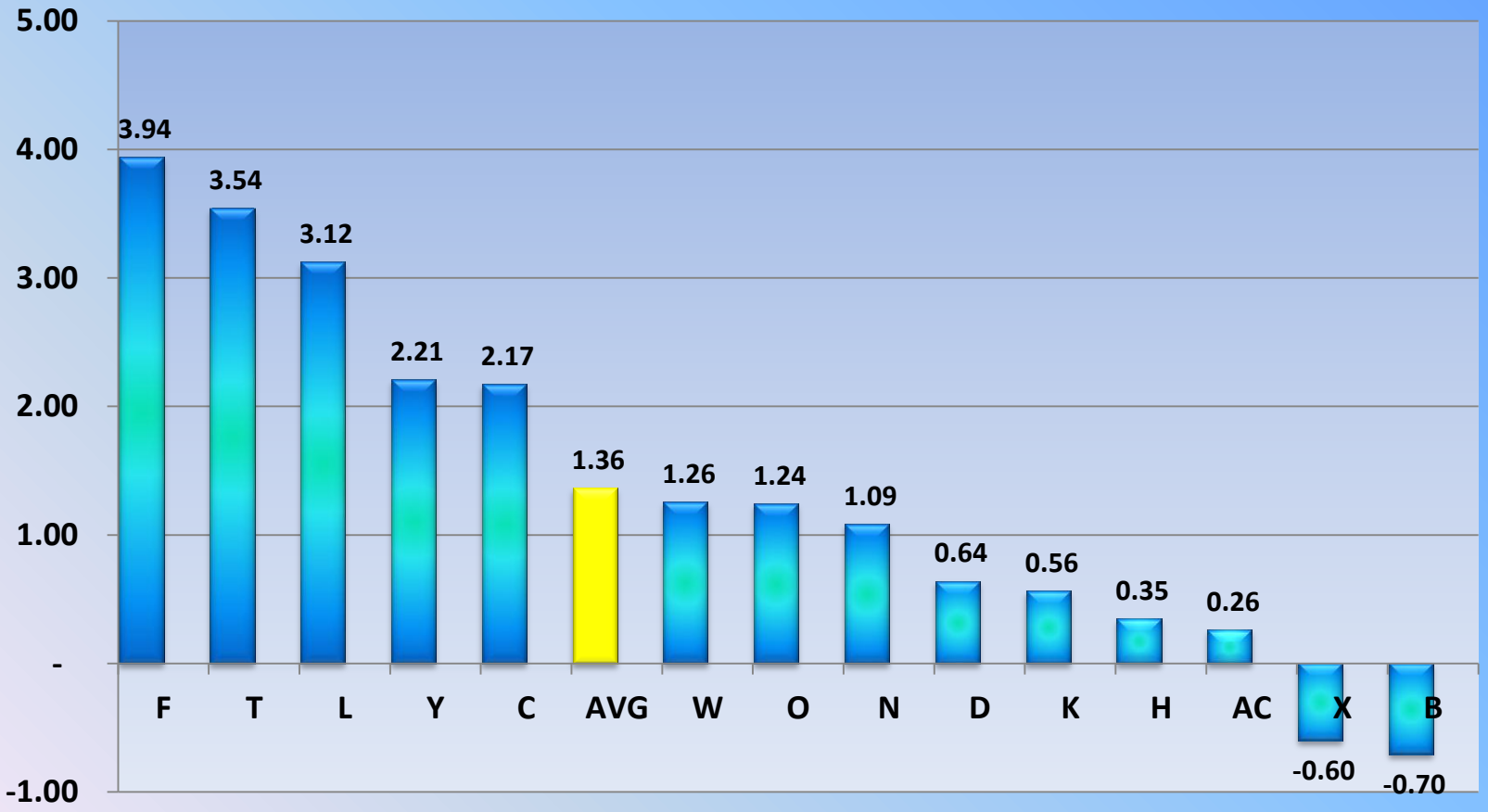
- **(Available cash + Investments)/monthly fixed operational expenditure**

- **(Available cash + Investments - Unspent Grants)/monthly fixed operational expenditure**

Cost Coverage - (Available cash + Investments)/monthly fixed operational expenditure



Cost Coverage - (Available cash + Investments - Unspent Grants)/monthly fixed operational expenditure



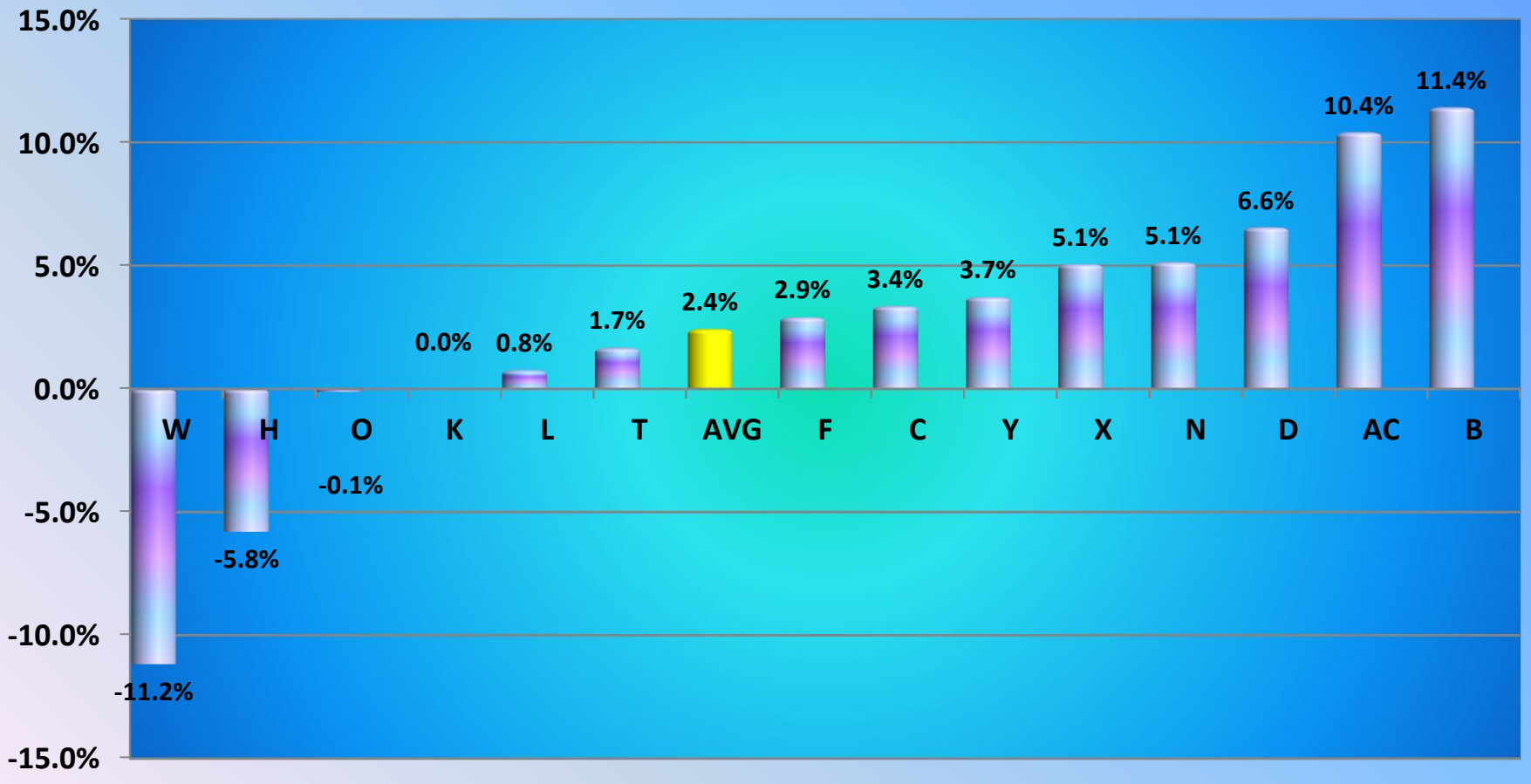
Medium Capacity Municipalities

Debtors movement -

- The level of non-payment is calculated in this ratio .This ratio measures the manner in which current debtors are managed

- **(Gross increase in Consumer debtors / Total income from Rates and Service Charges)*100**

Debtors movement



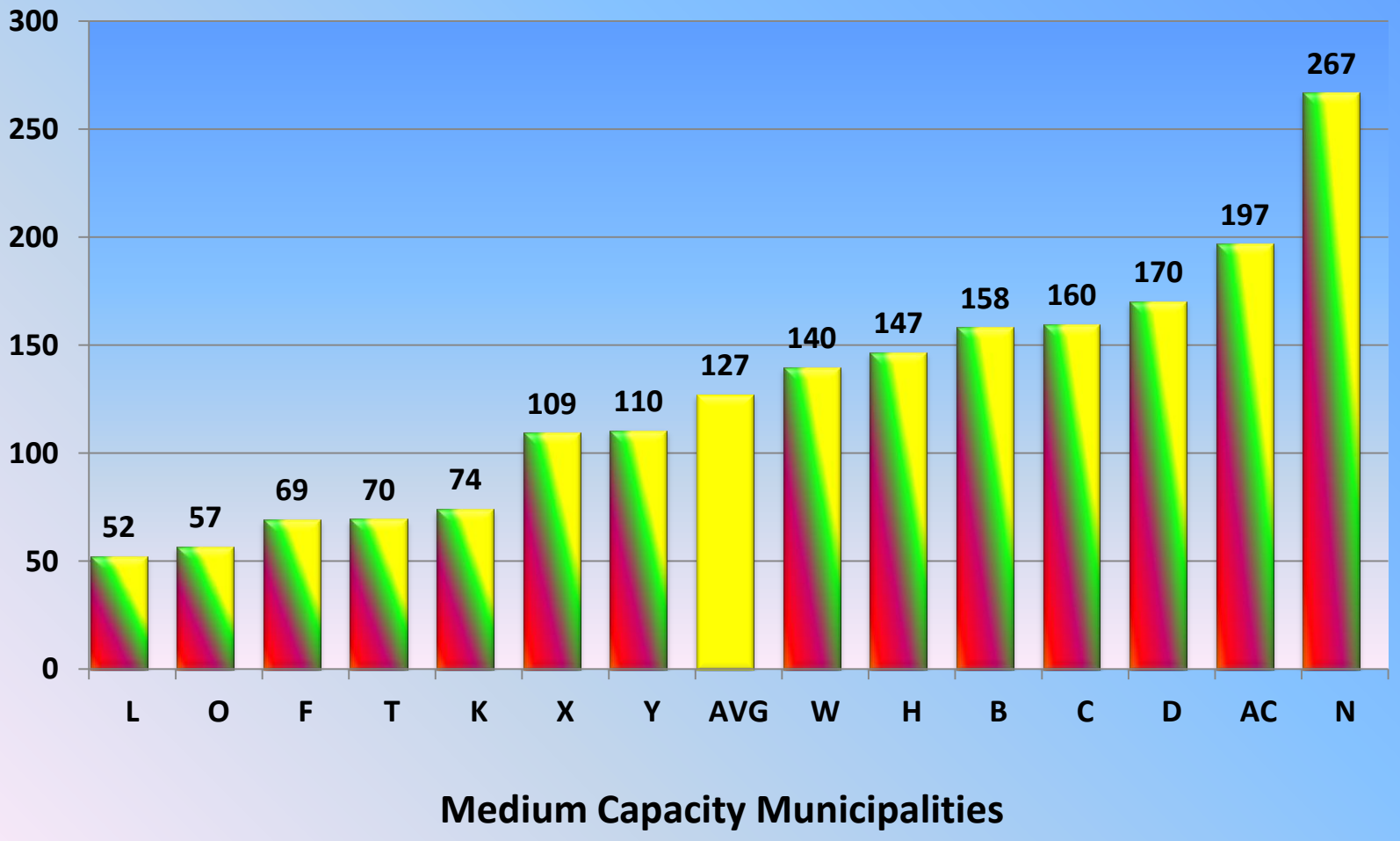
Medium Capacity Municipalities

Debtors turnover

- This Ratio is used to measure the turnover rate of debt in days . The accumulated situation is measured and therefore is indicative of the manner of which old debt is managed

- **(Gross Rates and Service charge debtors / Total income from Rates and Service Charges)*365 days**

Debtors turnover

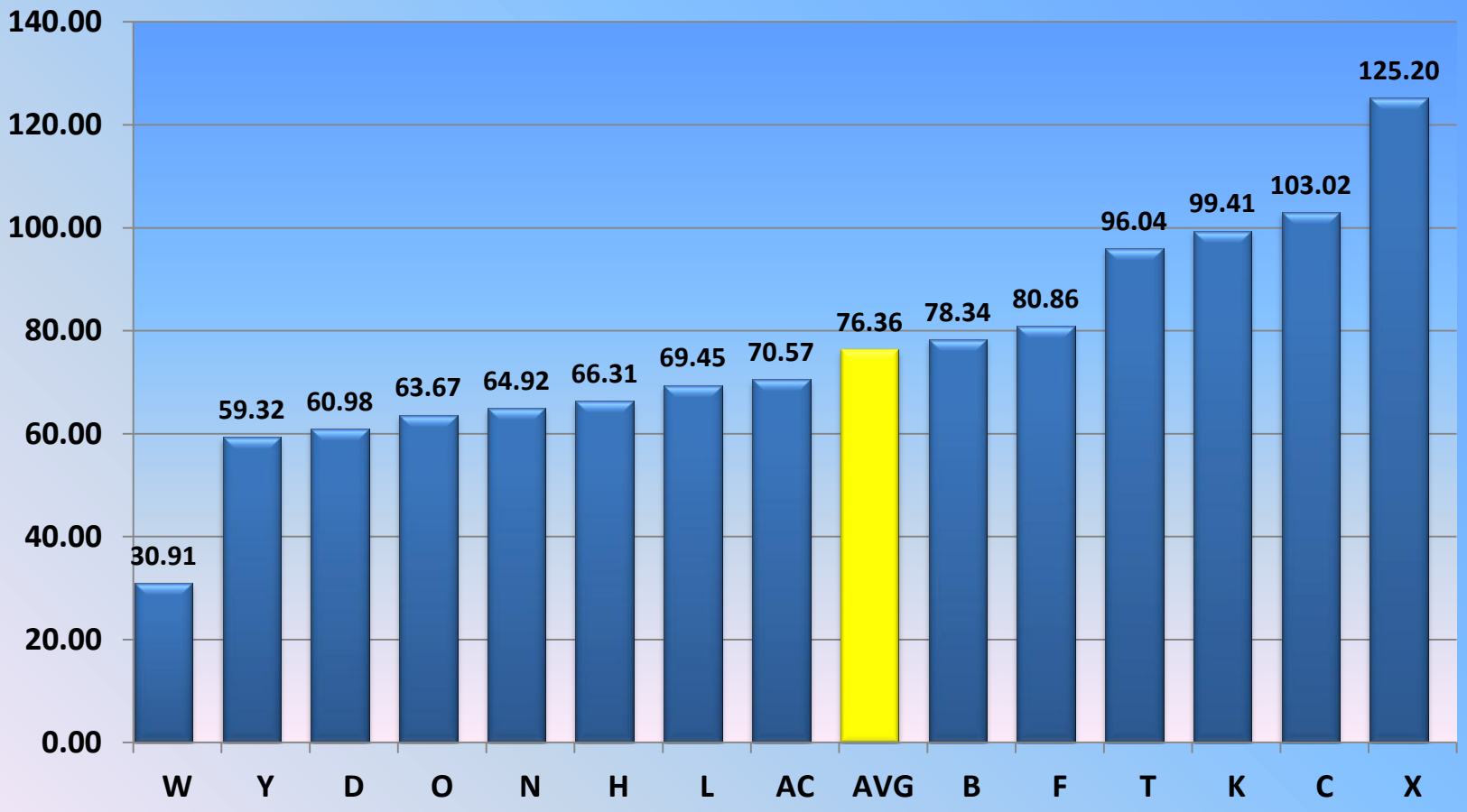


Creditors Payment Rate (Days)

- This Ratio measures the length of time it takes a Municipality to pay its Creditors

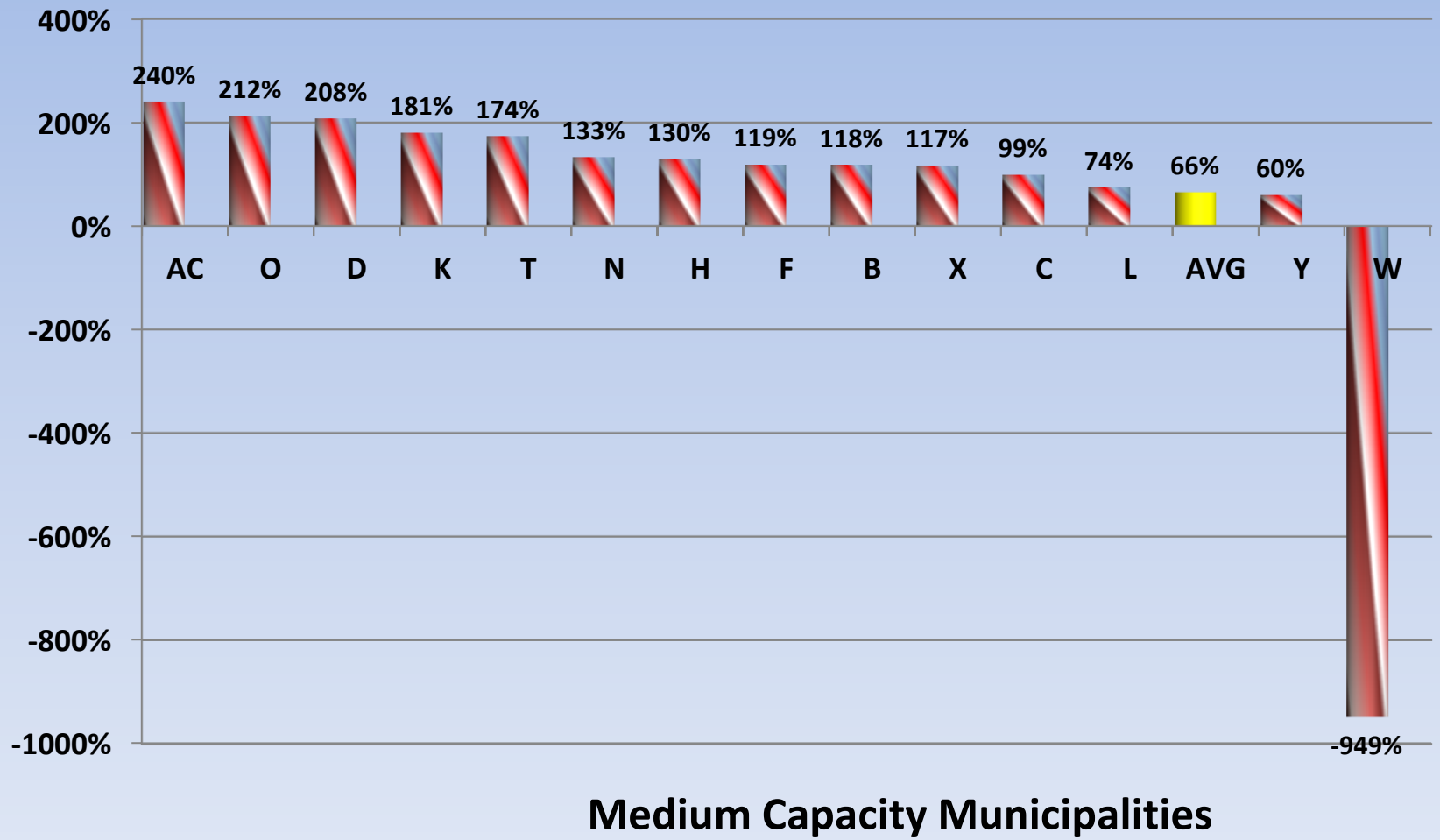
- **(Creditors / Payments) * 365**

Creditors Payment Rate (Days)

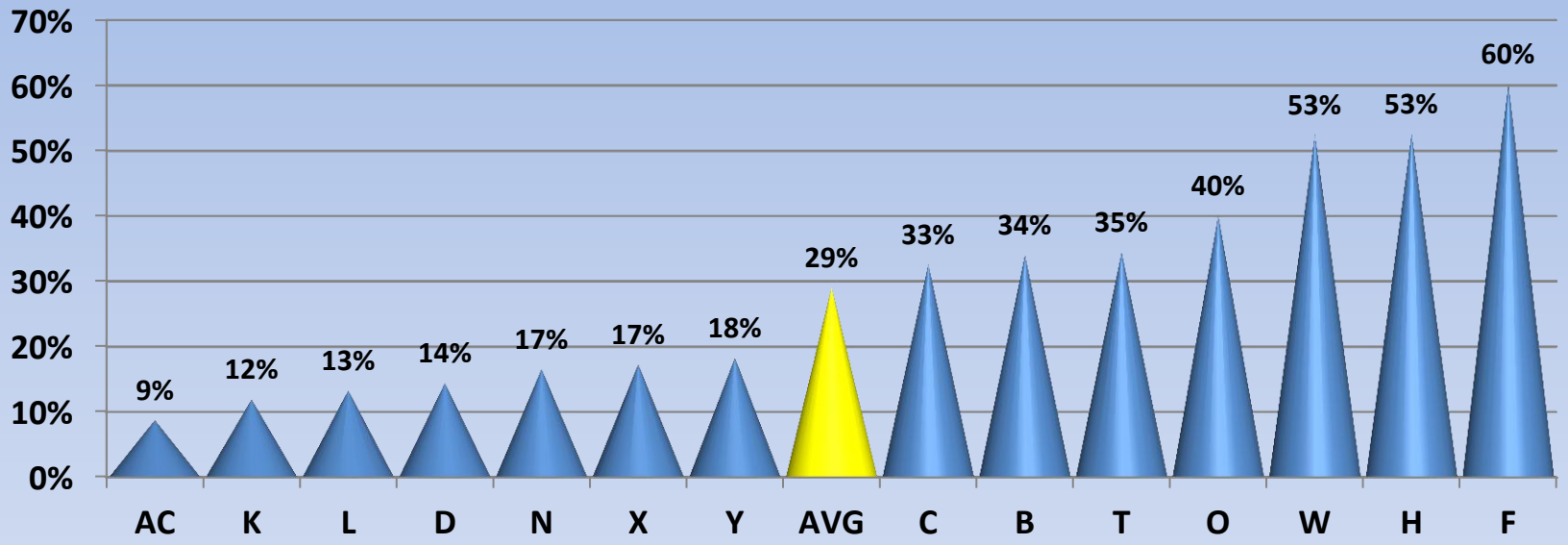


Medium Capacity Municipalities

Purchase of PPE as % of Cash generated by operations - (Purchase of PPE, Investment Property, Intangibles) / Cash generated by Operations

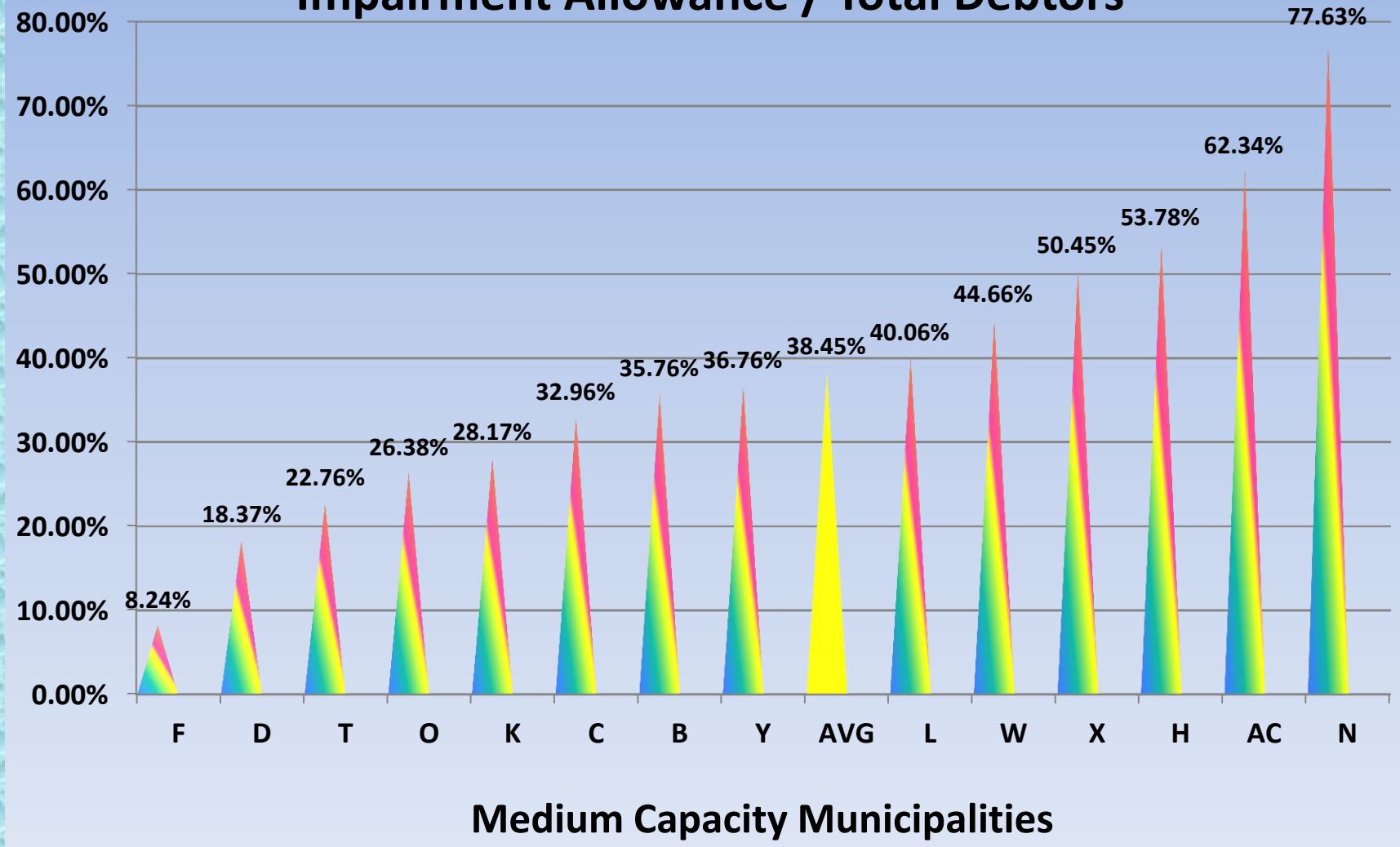


Bad debts written-off as % of Total Impairment allowance -
Bad Debts written-off / Total Impairment

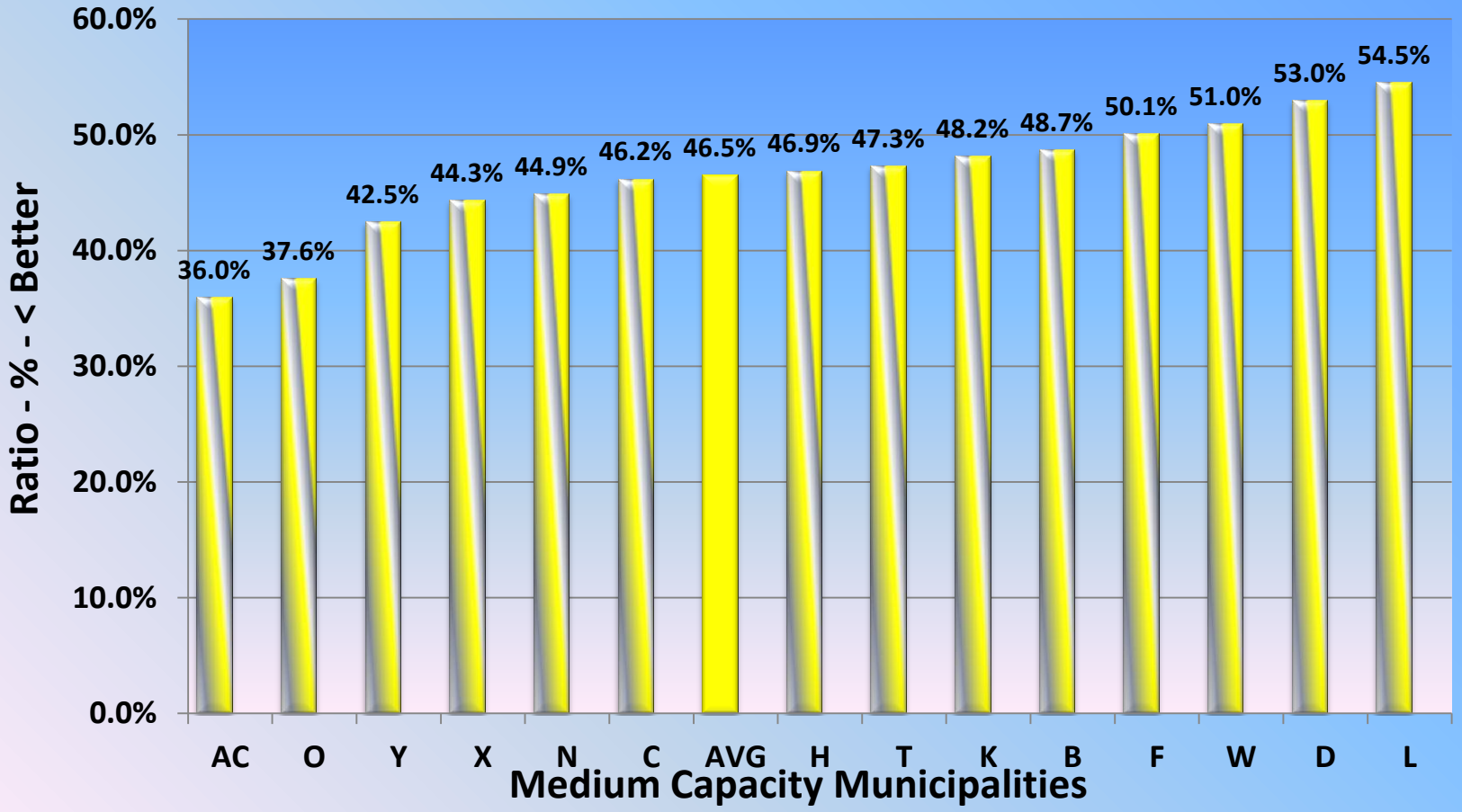


Medium Capacity Municipalities

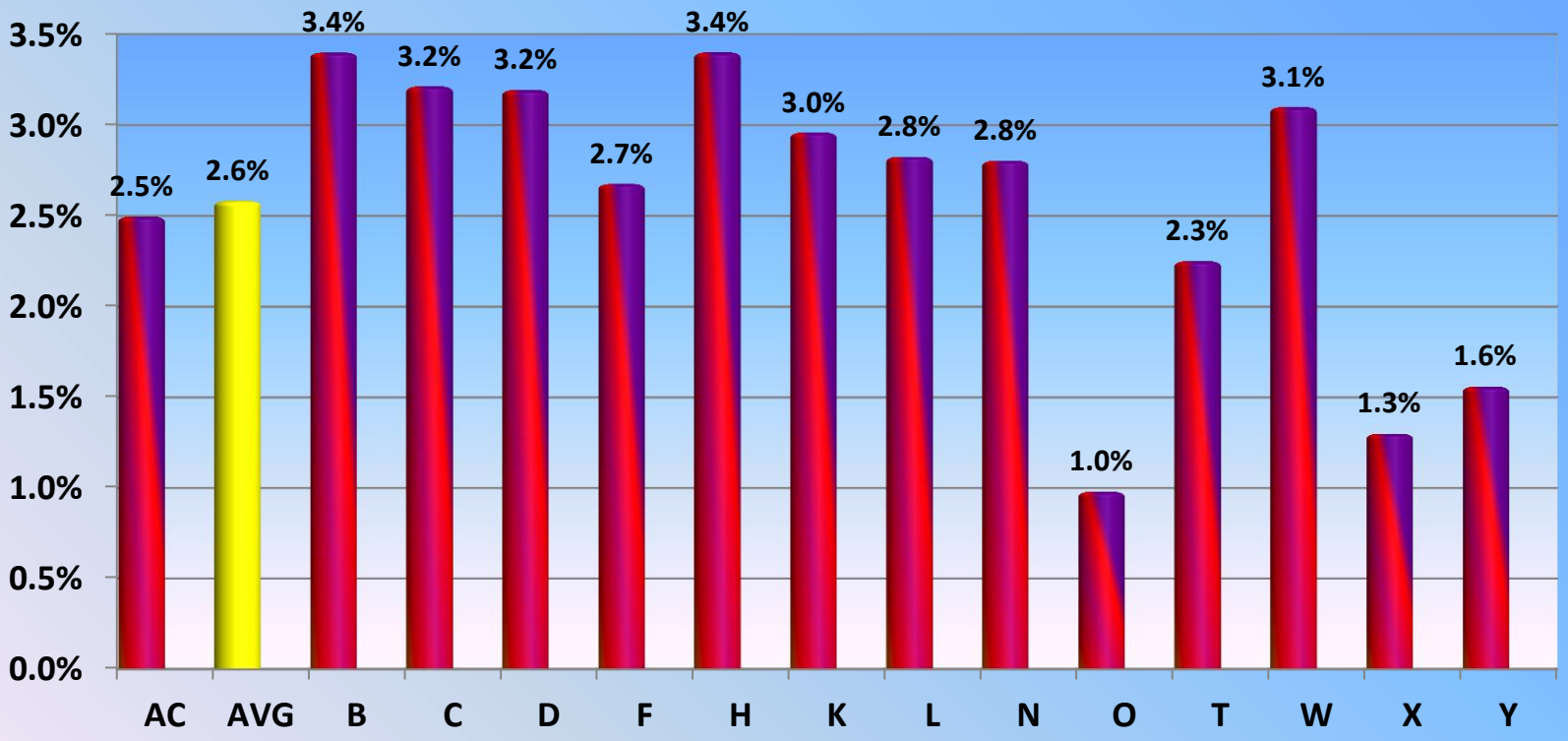
Impairment Allowance as % of Total Debtors - Impairment Allowance / Total Debtors



Employee Related Costs as part of Total Operating Expense excluding Depreciation & Bulk Purchases - Employee Related Costs / (Total Operating Expense - Depreciation - Bulk Purchases

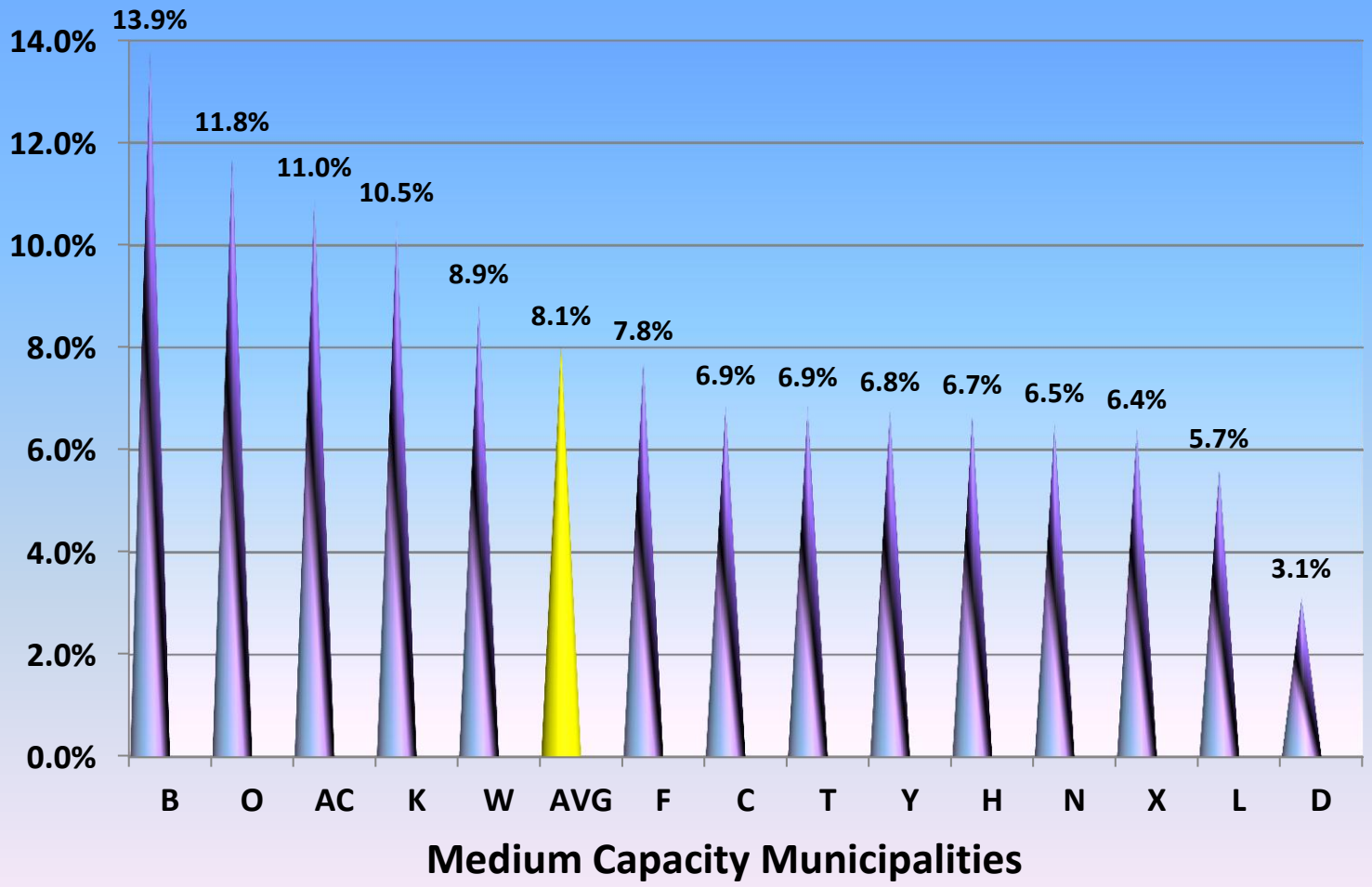


Remuneration of Councillors as part of Total Operating Expense excluding Repairs and Maintenance - Remuneration of Councillors / (Total Operating Expense - Depreciation - Bulk Purchases)

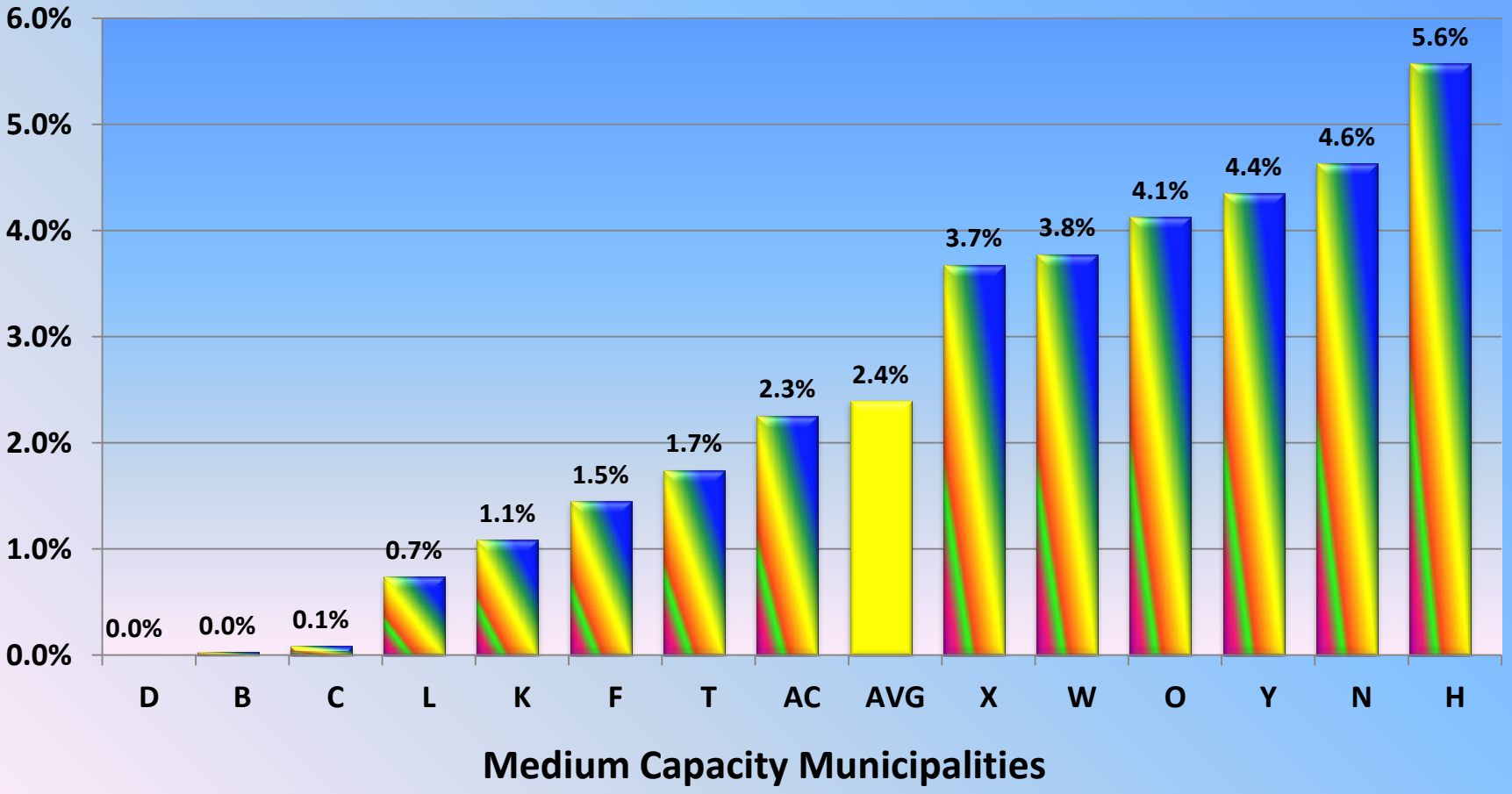


Medium Capacity Municipalities

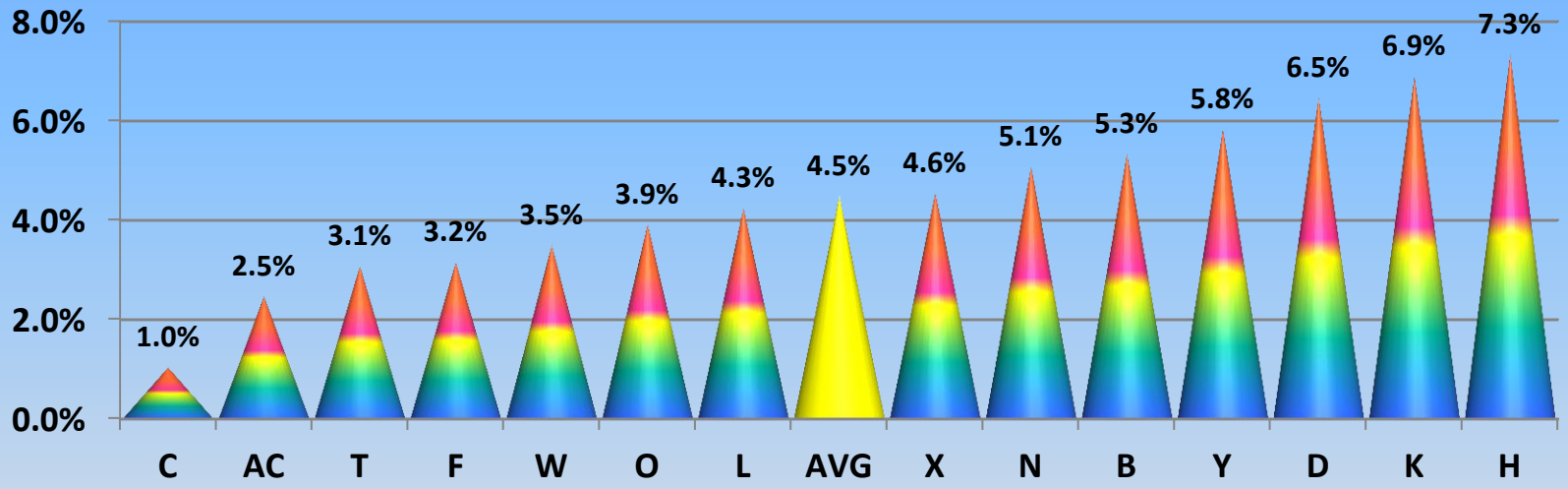
Repairs and Maintenance as part of Total Operating Expense excluding Depreciation and Bulk Purchases - Repairs and Maintenance / (Total Operating Expense - Depreciation - Bulk Purchases



Contracted Services as part of Total Operating Expense excluding Depreciation and Bulk Purchases - Contracted Services / (Total Operating Expense - Depreciation - Bulk Purchases

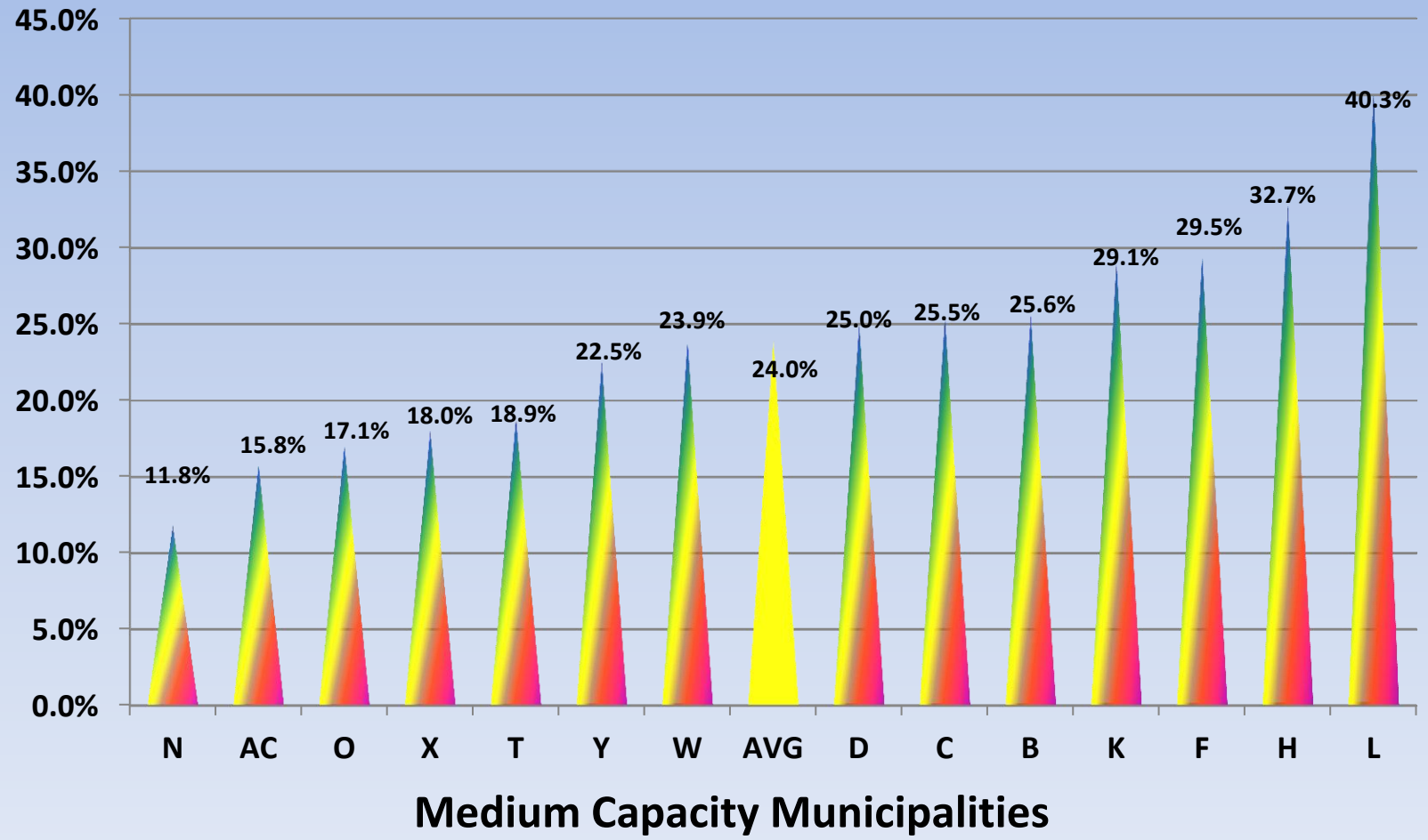


Interest Paid as part of Total Operating Expense excluding Depreciation and Bulk Purchases - Interest Paid / (Total Operating Expense - Depreciation - Bulk Purchases)

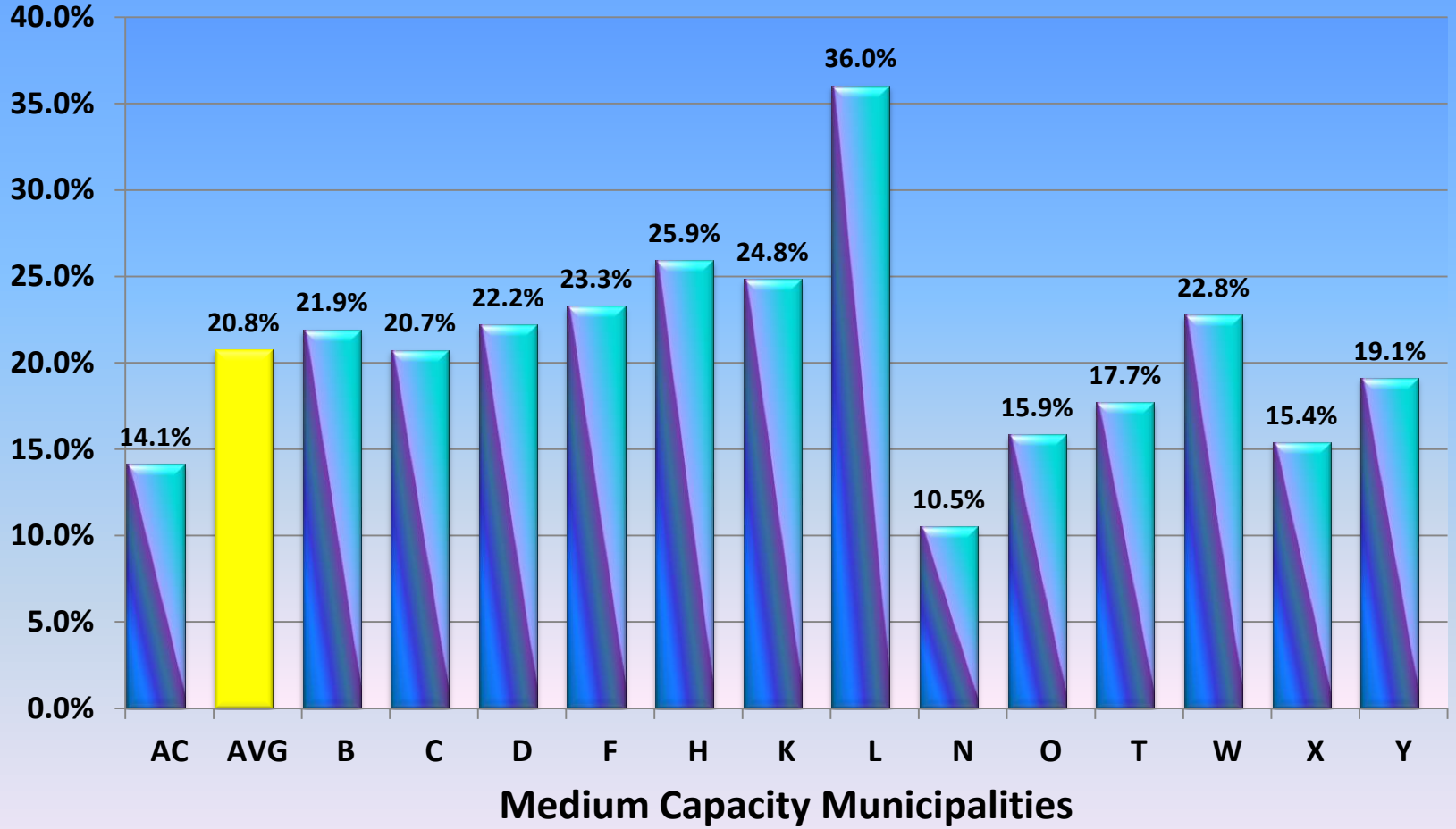


Medium Capacity Municipalities

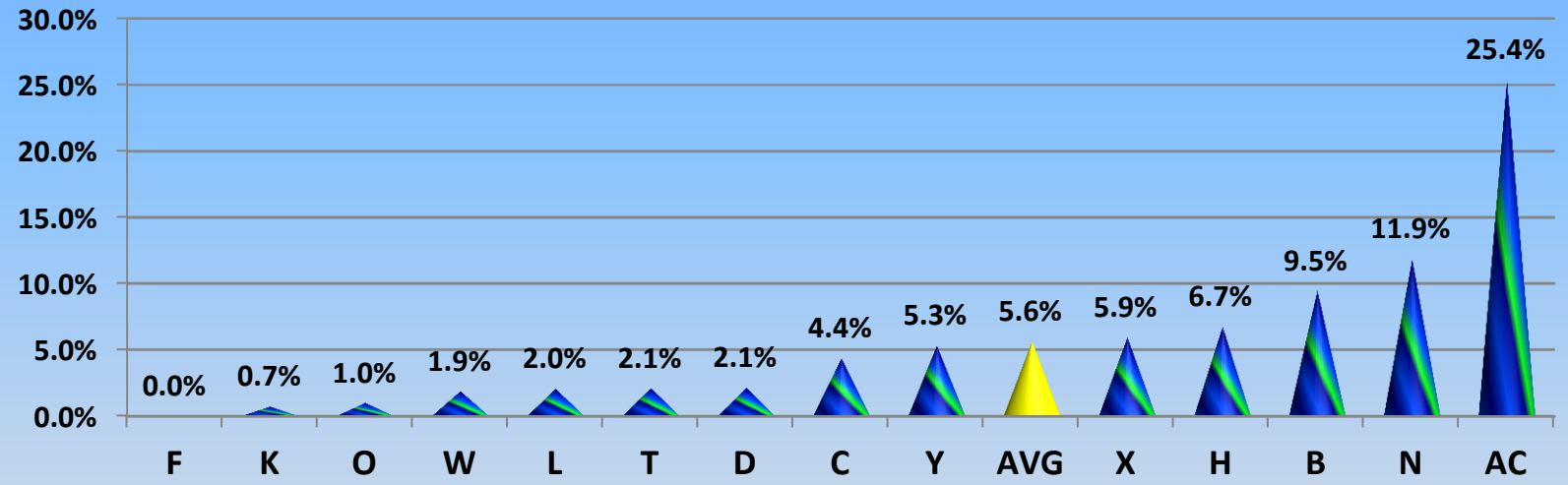
Electricity Bulk Purchases as part of Total Operating Expense excluding Depreciation - Bulk Purchases / (Total Operating Expense - Depreciation)



Electricity Bulk Purchases as an % of Total Income - Bulk Purchases / Total Income

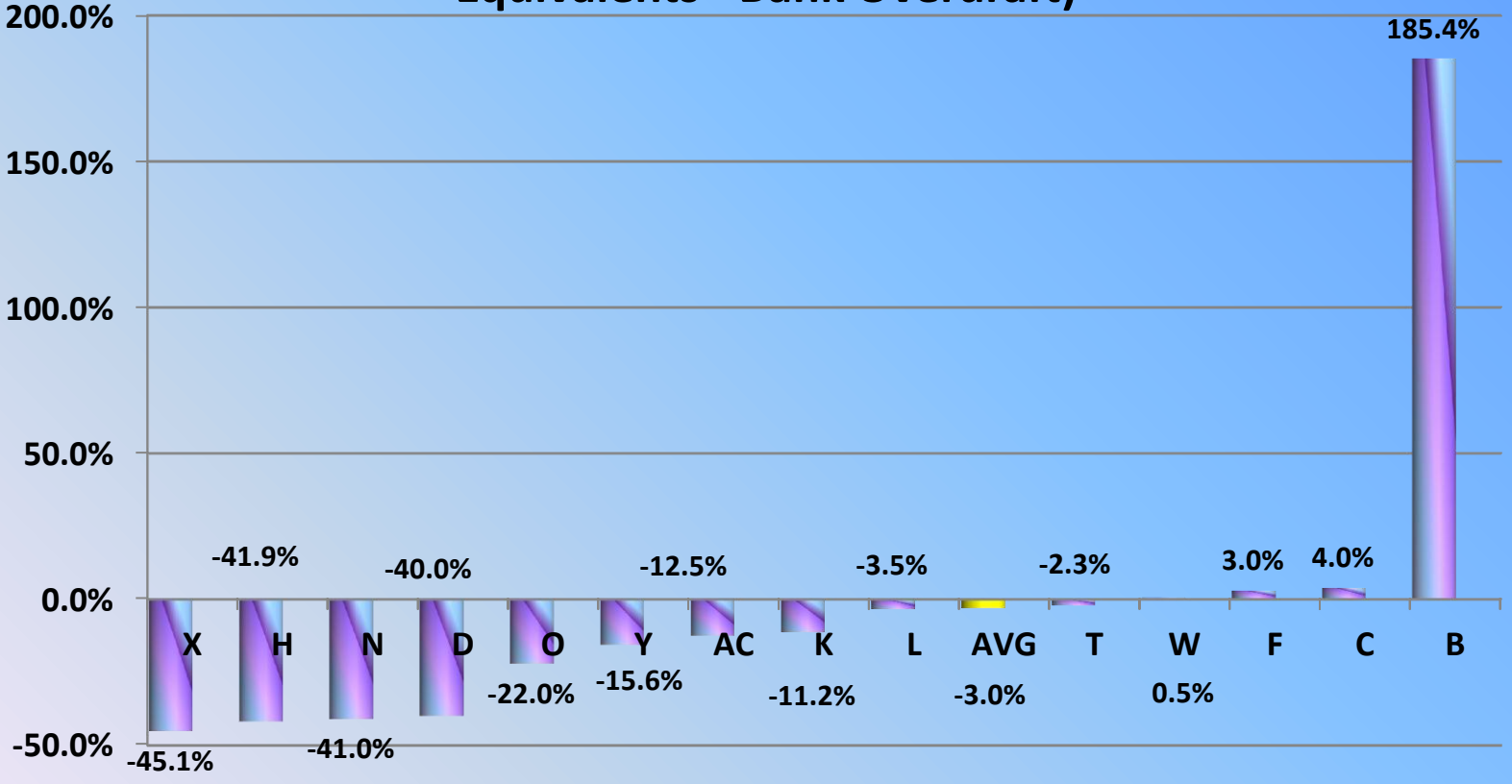


Debt Impairment as % of Revenue on credit - Debt Impairment / (Service Charges + Property Rates + Interest on debtors)



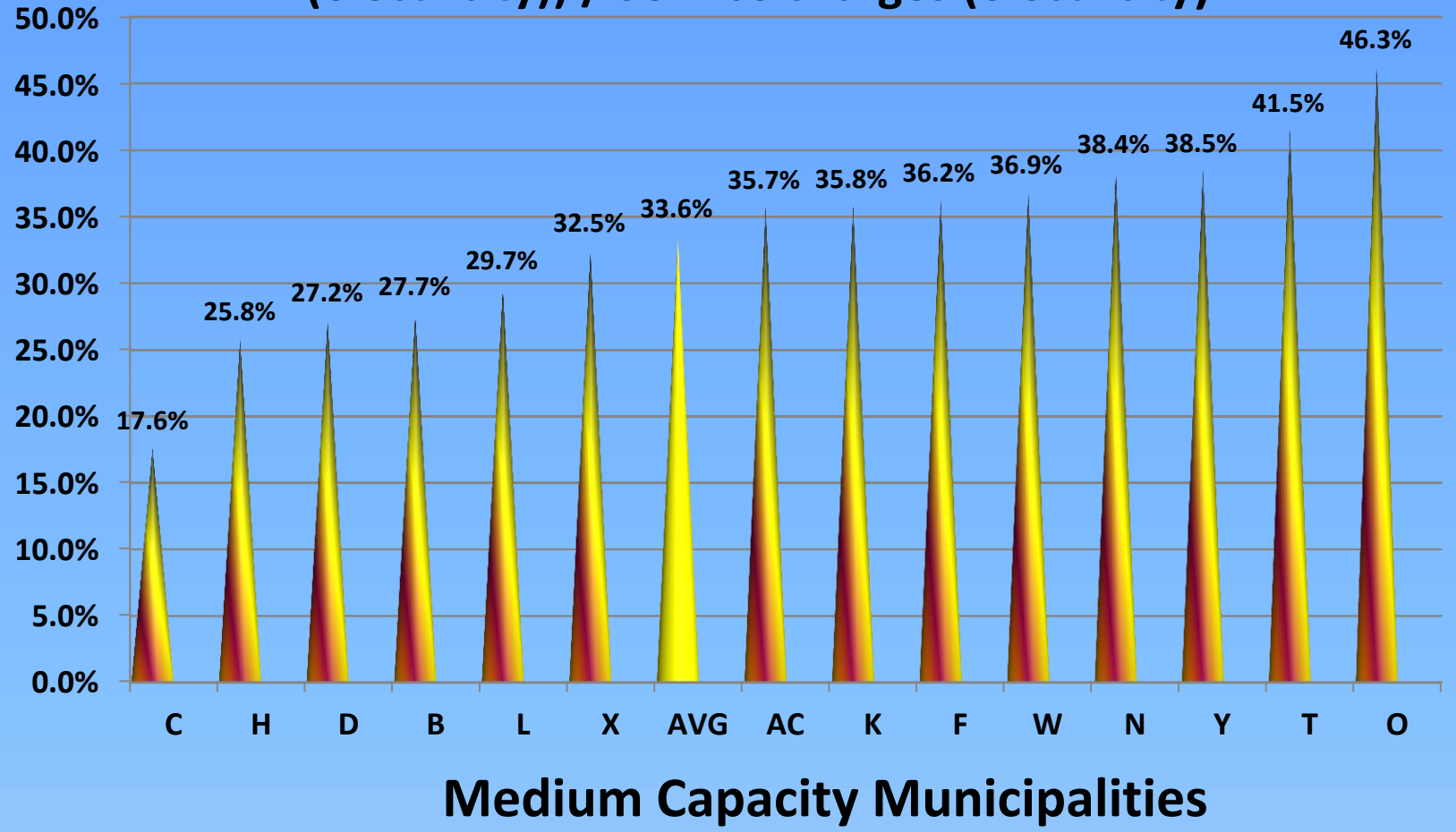
Medium Capacity Municipalities

Cost of Cash vs Borrowings Ratio - (Finance Charges - Interest Received)/(Investments + Cash Equivalents - Bank Overdraft)

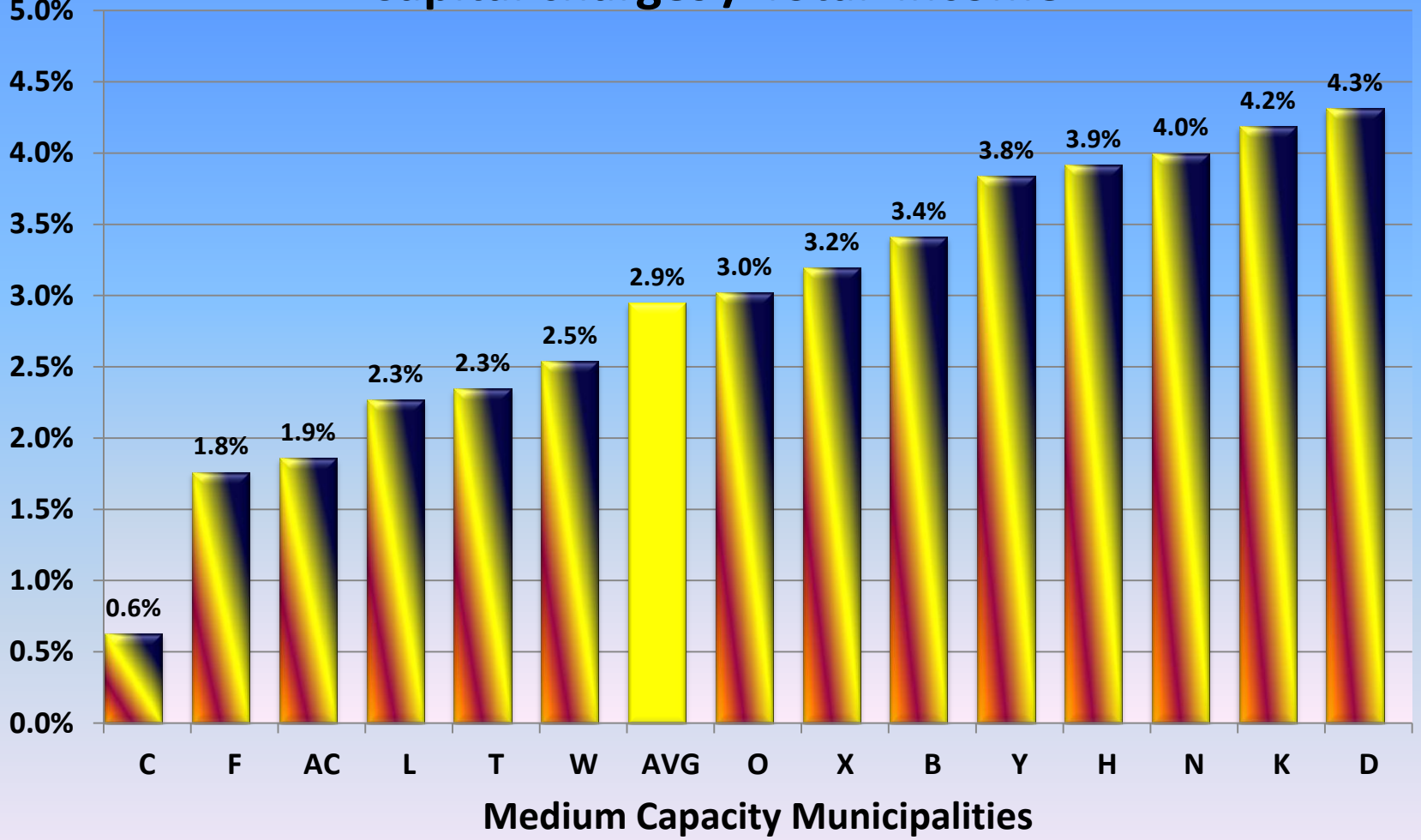


Medium Capacity Municipalities

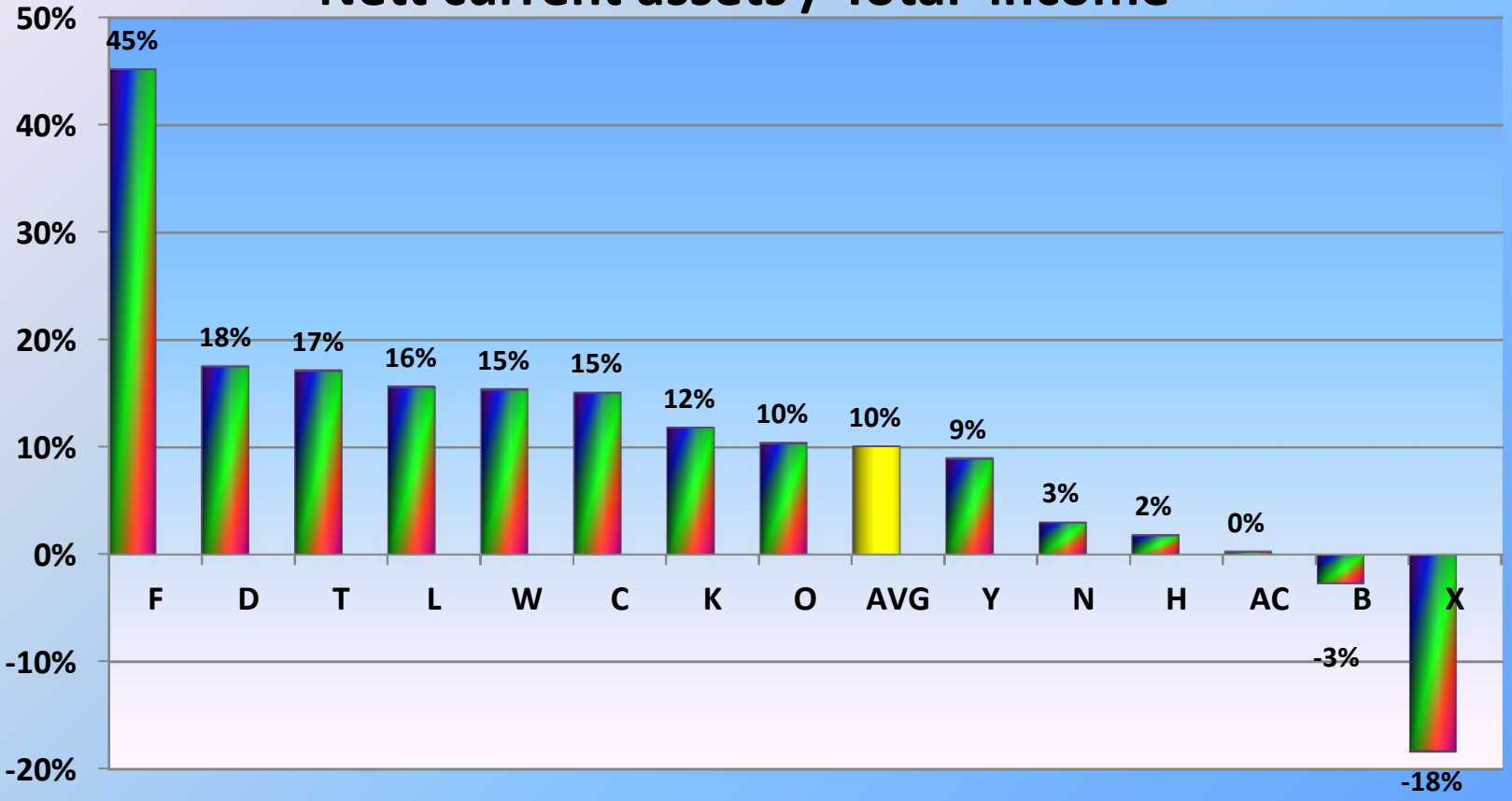
Gross Profit - Electricity - (Service charges (electricity) - Bulk Purchases (electricity)) / Service charges (electricity)



Loan debt servicing cost - Capital charges / Total income

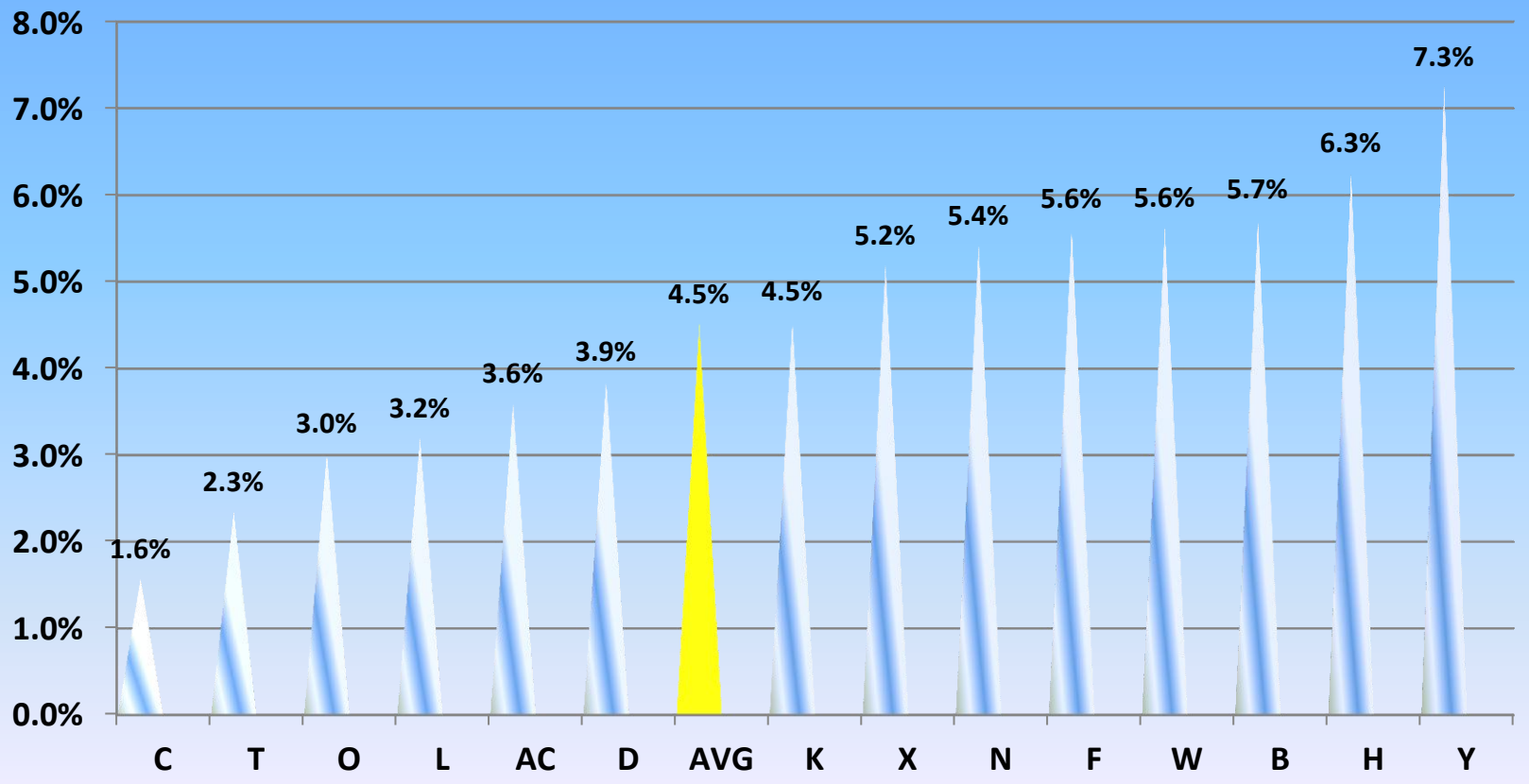


Working capital requirement as a percentage of total income -
Nett current assets / Total income



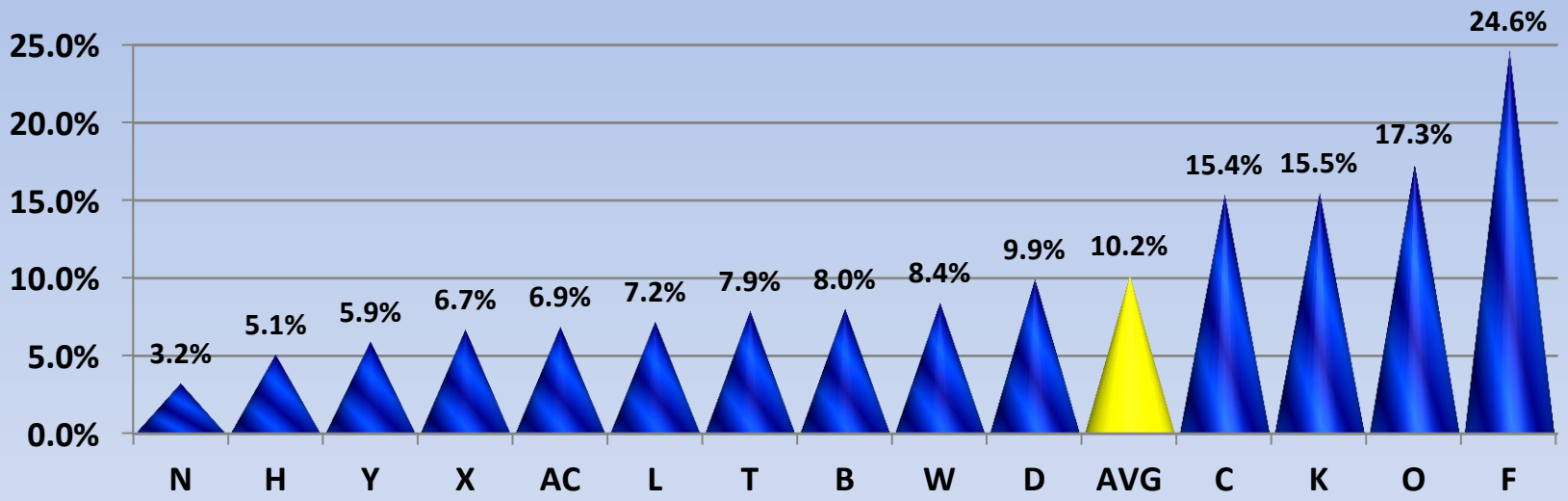
Medium Capacity Municipalities

Interest and redemption as percentage of revenue - (Interest + Redemption) / Revenue



Medium Capacity Municipalities

Depreciation as part of Total Operating Expense excluding Bulk Purchases -
Depreciation / (Total Operating Expense - Bulk Purchases)



Medium Capacity Municipalities

- **THANK YOU**
- **BAIE DANKIE**
- **ENKOSI**