

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

2016

2015

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year. The following standards were adopted for the first time in the 2014 annual financial statements.

- Grap 1 (as revised 2012): Presentation of financial statements
- Grap 3 (as revised 2012): Accounting policies, changes in accounting estimates and errors
- Grap 9 (as revised 2012): Revenue from exchange transactions
- Grap 12 (as revised 2012): Inventories
- Grap 13 (as revised 2012): Leases
- Grap 17 (as revised 2012): Property, plant and equipment
- Grap 31 (as revised 2012): Intangible assets (Replaces Grap 102)
- IGRap 16: Intangible assets website costs
- Grap 20: Related parties
- IGRap 1 (as revised 2012): Applying the probability test on initial recognition of revenue
- Grap 25: Employee benefits

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2016 or later periods:

- | | |
|--|---------------|
| • GRAP 18: Segment Reporting | April 1, 2017 |
| • GRAP 20: Related parties | April 1, 2017 |
| • GRAP 32: Service Concession Arrangements: Grantor | April 1, 2016 |
| • GRAP 108: Statutory Receivables | April 1, 2016 |
| • IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | April 1, 2016 |
| • GRAP 16 (as amended 2015): Investment Property | April 1, 2016 |
| • GRAP 17 (as amended 2015): Property, Plant and Equipment | April 1, 2016 |
| • GRAP 109: Accounting by Principals and Agents | April 1, 2017 |
| • GRAP 21 (as amended 2015): Impairment of non-cash-generating assets | April 1, 2017 |
| • GRAP 26 (as amended 2015): Impairment of cash-generating assets | April 1, 2017 |
| • Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities | April 1, 2018 |

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2016		2015	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Land	1,037,872	-	1,037,872	1,037,872
Buildings	31,633,607	(1,464,628)	30,168,979	31,932,857
Infrastructure	2,154,645,931	(308,726,885)	1,845,919,046	1,981,759,317
Other property, plant and equipment	66,456,382	(29,987,730)	36,468,652	55,277,180
Leased assets	-	-	-	9,337,089
Total	2,253,773,792	(340,179,243)	1,913,594,549	2,079,344,315
				(293,709,768)
				1,785,634,547

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Write off	Transfers	Depreciation	Total
Land	1,037,872	-	-	-	-	1,037,872
Buildings	31,437,449	18,750	-	(318,000)	(969,220)	30,168,979
Infrastructure	1,261,027,774	3,675,428	-	229,681,264	(37,983,576)	1,456,400,890
Other property, plant and equipment	39,500,727	5,354,968	(1,188,166)	2,960,495	(10,159,383)	36,468,641
Leased assets	2,642,495	-	-	(2,642,495)	-	-
Other property plant and equipment "work in progress"	449,988,230	169,211,201	-	(229,681,264)	-	389,518,167
	1,785,634,547	178,260,347	(1,188,166)	-	(49,112,179)	1,913,594,549

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Write off	Transfers	Depreciation	Total
Land	1,037,872	-	-	-	-	1,037,872
Buildings	1,516,194	30,000,000	-	-	-	31,437,449
Infrastructure	1,189,084,061	-	(1,342,273)	111,120,985	(78,745)	1,261,027,774
Other property, plant and equipment	14,828,531	33,043,281	(1,201,476)	-	(7,169,609)	39,500,727
Leased assets	4,036,629	-	-	-	(1,394,134)	2,642,495
Other property, plant and equipment "work in progress"	311,652,883	249,456,332	-	(111,120,985)	-	449,988,230
	1,522,156,170	312,499,613	(2,543,749)	-	(46,477,487)	1,785,634,547

The amounts of R2,543,748 (2014/2015) and R1,188,166 (2015/2016) represents asset which could not be verified during the asset verification process and is awaiting Council resolution for write off.

Assets subject to finance lease (Net carrying amount)

Ancillary fleet equipment and security

-	2,642,495
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Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

2016
R

2015
R

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2016

	Included within Other PPE	Total
Opening balance		
Additions/capital expenditure	449,988,230	449,988,230
Transferred to completed projects (infrastructure)	169,211,201 (229,681,264)	169,211,201 (229,681,264)
	<u>389,518,167</u>	<u>389,518,167</u>

Work in progress represents capital projects which has not been completed at financial year end,

Once a project has been completed and a completion certificate has been issued work in progress is transferred to infrastructure in the fixed asset register.

No depreciation is calculated on work in progress disclosed in the fixed asset register.

Reconciliation of Work-in-Progress 2015

	Included within Other PPE	Total
Opening balance		
Additions/capital expenditure	311,652,883	311,652,883
Other movements (Bergville sewerage phase 2 donated by Okhahlamba Municipality)	243,017,681	243,017,681
Transferred to completed projects (Infrastructure)	6,438,651 (111,120,985)	6,438,651 (111,120,985)
	<u>449,988,230</u>	<u>449,988,230</u>

5. Intangible assets

Computer software

2016			2015		
Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
786,557	(133,183)	653,374	297,957	(59,755)	238,202

Notes to the Annual Financial Statements

Figures in Rand

5. Intangible assets (continued)

Reconciliation of intangible assets - 2016

Computer software

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Write off	Amortisation	Total
	238,202	543,600	(43,543)	(84,885)	653,374

	Opening balance	Additions	Amortisation	Total
	108,870	177,835	(48,503)	238,202

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
6. Employee benefit obligation		
Post retirement medical aid plan and long service awards		
Independant valuers, Arch Actuarial Consulting, carried out the statutory valuation.		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation - post employment medical aid subsidies	(16,304,317)	(3,466,305)
Present value of the defined benefit obligation - long service awards	(11,013,246)	(9,927,066)
	<u>(27,317,563)</u>	<u>(13,393,371)</u>
Non-current liabilities		
Current liabilities		
	(26,438,620)	(12,494,245)
	(878,943)	(899,126)
	<u>(27,317,563)</u>	<u>(13,393,371)</u>
Changes in the present value of the post retirement medical aid plan obligation are as follows:		
Opening balance	3,466,305	3,127,838
Net expense recognised in the statement of financial performance	12,838,012	338,467
	<u>16,304,317</u>	<u>3,466,305</u>
Net expense recognised in the statement of financial performance		
Current service cost	190,794	166,809
Interest cost	293,265	271,297
Actuarial (gains) losses	12,497,257	11,517
Expected return on plan assets	(143,304)	(111,156)
	<u>12,838,012</u>	<u>338,467</u>
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Obligation	12,497,257	11,517
Movement in the retirement medical aid obligation are as follows:		
Opening balance	3,466,305	3,127,838
Current-service costs	190,794	166,809
Interest cost	293,265	271,297
Expected employer benefit payments	(143,304)	(111,156)
Actuarial (gain)/loss recognized	12,497,257	11,517
	<u>16,304,317</u>	<u>3,466,305</u>

The municipality expects to contribute R344,064 to its defined benefit plans in the 2016/2017 financial year and R373,863 in the 2017/2018 financial year.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
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6. Employee benefit obligation (continued)

Key assumptions used

The principal actuarial assumptions were as follows;

Discount rate	9.66 %	8.64 %
Health care cost inflation rate	8.66 %	7.94 %
Net discount rate - health care cost inflation	0.92 %	0.65 %
Maximum subsidy inflation rate	6.12 %	7.44 %
Net discount rate - maximum subsidy inflation	3.33 %	1.12 %

Examples of mortality rates used were as follows;

Retirement age and mortality

Average retirement age	Age 65 Years	Age 65 Years
Continuation of membership at retirement	100%	100%
Proportion assumed married at retirement	90%	90%
Mortality during employment	SA 85-90	SA 85-90
Mortality post-retirement	PA(90) -2	PA(90) -2

Members withdraw from service: (average for males and females)

Average for males and females

Age 20	Males	Females
Age 30	15%	24%
Age 40	7%	7%
Age 50	2%	2%
Age 55	0%	0%
	0%	0%

Long service awards

The municipality offers employees long service awards for every 5 years of service completed, from 10 years of service to 45 years of service, inclusive

Changes in present value of long service awards are as follows

Value as at the beginning of the year	9,927,066	8,076,122
Increase in value of obligation	1,086,180	1,850,944
	<u>11,013,246</u>	<u>9,927,066</u>

Independent valuers, ARCH Actuarial Consulting, carried out the statutory valuations for the 2013/2014, 2014/2015 and 2015/2016 financial years.

The total liability has increased by 11% or (R1,086,180) during 2015/2016 due to the increase in salaries and more eligible employees.

The principal actuarial assumptions used were as follows

Rates

Discount rate	2016	2015
General salary Inflation	8.80%	8.23%
Net discount rate	7.43%	7.22%
	1.27%	0.94%

The next actuarial valuation will be performed at the end of June 2017;

Examples of mortality rates

2016	2015
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Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
6. Employee benefit obligation (continued)		
Average retirement age	65	65
Pre-retirement mortality	SA 85-90	SA 85-90

Members withdrawn from services: (average for males and females.

Heading	Males	Females
Age 20	15%	24%
Age 30	7%	7%
Age 40	2%	2%
Age 50	0%	0%
Age 55	0%	0%

The amounts recognised in the statement of financial position were determined as follows;

Value		
Present value of funded obligation	2016 11,013,246	2015 9,927,066
Fair value of plan assets	-	-
Liability in the statement of financial position	11,013,246	9,927,066

Movement in the long service obligation are as follows;

Balance at beginning of year	2016 9,927,066	2015 8,076,122
Current service costs	1,272,243	973,145
Interest cost	786,412	637,756
Benefit payments	(755,822)	(826,511)
Actuarial loss / (gain)	(216,653)	1,066,554
Balance at end of year	11,013,246	9,927,066

The amounts recognised in the statement of financial performance were as follows;

In conclusion.

Statement of financial position obligation

Long service award	2016 11,013,246	2015 9,927,066
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Statement of financial performance obligation loss/gain

Long service award loss / (gain)	2016 (216,653)	2015 1,066,554
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7. Prepayments

Rental in respect of offices and parking space is payable in advance.

Operating leases are disclosed in note 36.

V.R Sarjoo - rental of offices

Konika Minolta - rental of office machines

Dedekind Real Estate - rental of parking space

Itabiri Investments - rental of parking space - Council vehicles

(2,106)	523,012
108,730	-
33,000	-
-	33,000
139,624	556,012

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
8. Inventories		
Chemicals	692,414	983,521
Purified water stock	570,721	424,585
Stores	4,283,827	3,808,921
	<u>5,546,962</u>	<u>5,217,027</u>
9. Receivables from exchange transactions		
Deposits	1,658,406	1,658,406
Sundry debtors	2,740,107	2,513,684
	<u>4,398,513</u>	<u>4,172,090</u>
10. Receivables from non exchange transactions		
Receivables from non exchange transactions	4,621,778	5,827,080
Other receivables from non exchange transaction	1,403,003	-
	<u>6,024,781</u>	<u>5,827,080</u>

Except for the salary fraude the municipality expects to realise these debtors within 12 months.

Receivables from non-exchange transactions (R4,621,778) includes an amount of R4,592,424 in respect of salary fraud.

The amount of R4,592,424 in respect of salary fraud is not included in employee related cost disclosed in the statement of financial performance.

Other receivables from non-exchange transactions (R1,403,003) includes a payment to the amount of R899,251 made to the Auditor General paid into the wrong bank account.

The payment made to the Auditor General was deposited into the account of a Mrs. Mashisi.

Mrs. Mashisi claims that the money was deposited into her loan account and she does not have access thereto.

Councils legal section has insituted legal action against Mrs. Mashisi to recover the money.

Refer to note 49 "Fruitless and wastefulll expenditure" for futher disclosure on salary fraud.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
11. Consumer debtors		
Gross balances		
Water and sanitation	574,090,484	496,900,363
Less: Allowance for impairment		
Water and sanitation	(430,417,314)	(372,374,278)
Net balance		
Water and sanitation	143,673,170	124,526,085
Water		
Current (0 -30 days)		
31 - 60 days	2,380,914	4,837,967
61 - 90 days	3,668,789	2,809,021
91 - 120 days	3,472,133	2,123,019
> 120 days	4,082,899	1,920,780
	130,068,435	112,835,298
	<u>143,673,170</u>	<u>124,526,085</u>

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
11. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)		
31 - 60 days	7,062,144	16,781,284
61 - 90 days	12,882,602	10,153,219
91 - 120 days	12,197,257	7,982,590
> 120 days	14,604,818	6,246,656
	504,654,484	433,467,675
Less: Allowance for impairment	551,401,305	474,631,424
	(413,397,103)	(355,673,372)
	138,004,202	118,958,052
Industrial/ commercial		
Current (0 -30 days)		
31 - 60 days	968,677	1,069,389
61 - 90 days	302,743	447,122
91 - 120 days	201,001	333,949
> 120 days	237,941	649,883
	8,982,256	13,109,209
Less: Allowance for impairment	10,692,618	15,609,552
	(8,021,031)	(11,706,604)
	2,671,587	3,902,948
National and provincial government		
Current (0 -30 days)		
31 - 60 days	1,498,424	1,498,424
61 - 90 days	1,498,424	634,131
91 - 120 days	1,498,424	355,922
> 120 days	1,498,423	785,480
	6,002,866	3,385,429
Less: Allowance for impairment	11,996,561	6,659,386
	(8,999,180)	(4,994,301)
	2,997,381	1,665,085
Total		
Current (0 -30 days)		
31 - 60 days	9,529,245	19,349,097
61 - 90 days	14,683,768	11,234,473
91 - 120 days	13,896,682	8,672,462
> 120 days	16,341,183	7,682,019
	519,639,606	449,962,312
Less: Allowance for impairment	574,090,484	496,900,363
	(430,417,314)	(372,374,278)
	143,673,170	124,526,085
Less: Allowance for impairment		
Current (0 -30 days)		
31 - 60 days	(7,148,331)	(14,511,129)
61 - 90 days	(11,014,979)	(8,425,452)
91 - 120 days	(10,424,549)	(6,549,444)
> 120 days	(12,258,283)	(5,761,239)
	(389,571,172)	(337,127,014)
	(430,417,314)	(372,374,278)

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
11. Consumer debtors (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year		
Contributions to allowance	(372,374,278)	(441,100,619)
Debt impairment written off against allowance - Limehill debtors	(58,043,036)	67,536,493
	-	1,189,848
	<u>(430,417,314)</u>	<u>(372,374,278)</u>

At the end of June 2015 (2014/2015 financial year) consumer debtors amounted to R496,900,363 and a provision for bad debt was made to the amount of R372,374,278 with nett debtors being R124,526,085.

At the end of June 2016 (2015/2016 financial year) consumer debtors amounted to R574,090,484 and a provision for bad debt was made to the amount of R430,417,314 with nett debtors being R143,673,170.

Fair value of consumer debtors

Consumer debtors

<u>143,673,170</u>	<u>124,526,085</u>
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The municipality performed its own exercise in terms of Grap 104 to establish;

1. How much of the debt is recoverable
2. When will this amount be recovered
3. And the present value of the debt that is to be recovered

By using the above measures the impairment provision calculated is R372,374,278 as at 30 June 2015 and R430,417,314 as at 30 June 2016.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand
Cash Bank
Short-term deposits

12,100	12,100
1,507,806	41,689,016
35,195,503	103,386,459
<u>36,715,409</u>	<u>145,087,575</u>

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R			2015 R		
12. Cash and cash equivalents (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2016	June 30, 2015	June 30, 2014
FNB current account 62252306280	903,858	41,181,646	25,071,495	903,858	41,181,646	25,052,921
FNB current account 62253072385	-	-	-	603,948	507,370	(834,040)
FNB business money account 62283176644	250,625	239,080	229,455	-	-	-
FNB call account 62402906484	-	16,847	22,090,980	-	-	-
FNB short term deposit account 74448698347	-	22,325,074	25,567,497	-	-	-
FNB short term deposit account 4448699204	-	4,823,758	4,559,571	-	-	-
FNB short term deposit account 74448700168	-	-	6,440,900	-	-	-
FNB short term deposit account 74448701124	-	-	5,874,018	-	-	-
FNB short term deposit account 74509856587	-	41,348,746	-	-	-	-
FNB short term deposit account 62600579679	173,035	-	-	-	-	-
FNB short term deposit account 62600812102	390,949	-	-	-	-	-
Nedbank call deposit account 7881108134	509,176	479,904	455,464	-	-	-
Nedbank call deposit account 7881108142	35,498	33,457	31,753	-	-	-
Nedbank call deposit account 7881108150	38,427	36,218	34,374	-	-	-
Nedbank call deposit account 7881108185	181,252	170,832	162,132	-	-	-
Nedbank call deposit account 7881108207	121,295	114,321	108,499	-	-	-
Nedbank Call deposit account 31108215	12,124	11,427	10,845	-	-	-
Nedbank call deposit account 7881108223	702	662	628	-	-	-
Nedbank call deposit account 7881108258	15,627	14,728	13,978	-	-	-
Nedbank call deposit account 7881108266	425,181	400,738	380,329	-	-	-
Nedbank call deposit account 7881108274	935	881	836	-	-	-
Nedbank call deposit account 7881108282	6,613	6,233	5,915	-	-	-
Nedbank call deposit account 7881113375	2,027,746	1,903,475	-	-	-	-
Nedbank call deposit account 7881006110	10,685	-	-	-	-	-
Investec call deposit account 50007868808	1,383,438	1,303,904	26,999,882	-	-	-
Investec call deposit account 50007609828	6,862,382	6,467,861	6,138,473	-	-	-
Investec call deposit account 50007621328	934,315	880,601	835,755	-	-	-

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

				2016 R	2015 R
12. Cash and cash equivalents (continued)					
Investec call deposit account 50007621342	24	24	24	-	-
Investec call deposit account 50007621374	123,863	116,742	110,797	-	-
Investec call deposit account 50008183042	20,654,510	21,713,468	-	-	-
Investec call deposit account 50008274324	1,037,101	977,478	-	-	-
Absa call deposit account 9290741801	-	-	39,709	-	-
Absa Call deposit account 9290742506	-	-	370,394	-	-
Absa call deposit account 9290743609	-	-	35,507	-	-
Absa call deposit account 9090743895	-	-	269,549	-	-
Absa call deposit account 9290744299	-	-	61,528	-	-
Absa call deposit account 9290744443	-	-	115,831	-	-
Absa call deposit account 9290744655	-	-	69,826	-	-
Absa call deposit account 9290745025	-	-	17,520	-	-
Absa call deposit account 9290739945	-	-	11,094	-	-
Absa call deposit account 9290740295	-	-	130,665	-	-
Absa call deposit account 9290740902	-	-	40,569	-	-
Absa call deposit account 9290749524	-	-	110,700	-	-
Absa call deposit account 9290740627	-	-	946,223	-	-
Absa call deposit account 9290741186	-	-	3,569	-	-
Absa call deposit account 9290744118	-	-	12,332	-	-
Absa call deposit account 9290744809	-	-	41,224	-	-
Total	36,099,361	144,568,105	127,399,840	1,507,806	41,689,016
					24,218,881

Investments were done in terms of the MFMA, Chapter 3, Part 2, section 13 "Cash Managements and Investments"

Interest was earned at an average interest rate of 6.1% for the period ending 30 June 2016.

13. Disposal of: a significant asset(s) /or a group of assets and liabilities /or a component of the entity

Management has taken a decision to dispose of a significant group of assets as reflected in appendix B "analysis of property, plant and equipment".

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
Disposal of: a significant asset(s) / or a group of assets and liabilities / or a component of the entity (continued)		
Description of the asset(s), group of assets and liabilities or, component		
The following disposals have been identified R3,874,041 (2015/2016) and R7,233,548 (2014/2015).		

Values at cost

Value of a group of assets (water purification)	-	2,797,852
Value of a group of assets (sewerage purification)	-	507,500
Value of a group of assets (vehicles)	-	945,357
Value of a group of assets (plant & equipment)	2,934,901	300,750
Value of a group of assets (computer equipment)	-	2,048,068
Value of a group of assets (furniture & fittings)	437,771	203,815
Value of a group of assets (office equipment)	148,600	340,371
Value of a group of assets (computer software)	309,226	-
Value of a group of assets (radio equipment)	43,543	86,560
Value of a group of assets (lawnmowers)	-	1,275
Value of a group of assets (other)	-	2,000

Further approvals required

Council approval must be obtained in respect of the above disposals.]

The expected sale or transfer date is Wednesday, November 30, 2016

14. Donations and public contributions

The donations disclosed refers to PPE which were donated to the Municipality during the 2014/2015 financial year.

Okhahlamba Municipality donated the Bergville sewerage project to the municipality as work in progress during the 2014/2015 financial year.

The value of the asset which was transferred amounts to R6,438,651 which is disclosed in the statement of financial performance for the 2014/2015 financial year and the retention recognized R465,190 is disclosed in the statement of financial position for the 2014/2015 financial year.

The retention was transferred to accumulated surpluses in the 2015/2016 financial year.

Bergville sewerage - donated during the 2014/2015 financial year

Transferred to accumulated surpluses in 2015/2016

-	(465,190)
-	-
-	(465,190)

15. Accumulated surplus

Opening balance
Movement in accumulated surplus account during 2015/2016
Operating surplus / (defecit) as at 30 June 2016

Accumulated surplus account	Total
1,813,110,669	1,813,110,669
702,367	702,367
74,413,945	74,413,945
1,888,226,981	1,888,226,981

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
15. Accumulated surplus (continued)		
Ring-fenced internal funds and reserves within accumulated surplus - 2015		
Opening balance		
Re statement of property, plant and equipment in respect of 2014/2015 financial year	1,600,601,432	1,600,601,432
Donated property, plant and equipment 2013/2014 financial year transferred to accumulated surpluses	7,859,909	7,859,909
Operating surplus / (defecit) for the year ending 30 June 2015	223,453	223,453
Unidentified difference 2012/2013 financial year transferred to accumulated surplus	204,636,529	204,636,529
	(210,654)	(210,654)
	1,813,110,669	1,813,110,669

16. Unspent conditional grants and receipts

Unspent conditional grants are disclosed as a current liability on the statement of financial position.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Rural Household Infrastructure	-	1,435,021
Masibumbaneni Co-op	-	305,993
KZN Infrastructure Sportsfields	-	33,964
LGSETA Training Grant	-	83,680
Water Services Optating Grant	195	742,512
IGR Grant	-	98,126
District Disaster Centre	-	1,393,461
KZN Backlog Study	-	14,197
KZN DPSS	-	881,034
Environmental Management Plan	451,303	61,859
Rural Road Asset Management Grant	-	-
Water infrastructure maintenance	16,043	270,417
District Disaster Relief	-	1,678,765
	467,541	6,999,029

Movement during the year

Balance at the beginning of the year	6,999,029	40,552,038
Additions during the year	276,338,765	286,487,451
Income recognition during the year	(258,579,576)	(320,040,460)
Regional Bulk Infrastructure Grant - payments received in advance included in current liabilities in statement of financial performance - refer note 25	(24,290,677)	-
	467,541	6,999,029

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

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

See note 25 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
17. Other financial liabilities - Development Bank of South Africa		
The municipality has redeemed all the Development Bank loans in full during the 2014/2015 financial year and the municipality is therefore free from all loans which were taken up in respect of capital development.		
The municipality has not taken up any new loans and there are no outstanding loan in the 2015/2016 financial year.		
18. Vat Payable		
Vat payable to SARS	29,333,940	26,936,174
The municipality is on a payment bases for VAT purposes. The vat payable is a result of the unpaid debt due by municipal consumers. The amount will only be payable to SARS on receipt of payments received from consumers.		
VAT returns are up to date.		
19. Purchase of office building		
The Municipality has entered into a sale agreement with Enambithi Construction CC to purchasing the office building which it is currently occupying at 33 Forbes Street / 36 Lyell Street. in Ladysmith.		
The purchase price agreed upon was R30,000,000 excluding VAT and it was agreed that it will be paid in three instalments.		
The fist instalment of R9,000,000 excluding VAT was due and payable on the 30th of June 2015.		
The second instalment of R10,000,000 plus Vat is due and payable on the 30th of September 2016 and the third and final payment of R11,000,000 plus VAT is due and payable on the 30th of November 2016.		
The building is included in property, plant and equipment in the statement of financial position for the amount of R30,000,000.		
Purchase of office building		
Current liability in respect of the payment which was due to Enambithi Construction on the 30th of November 2015	6,210,601	23,940,000
20. Payables from exchange transactions		
Trade payables		
Department of water affairs (DWAF) Accrual	54,522,785	104,810,871
ist funds- late estates	25,341,736	31,616,690
retentions	5,673,230	3,134,284
Debtors refunds	18,084,621	21,310,335
Sundry creditors	59,655	61,296
	557,156	511,339
	<u>104,239,183</u>	<u>161,444,815</u>

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
20. Payables from exchange transactions (continued)		
Fair value of trade and other payables		
Trust Funds - estate lates	-	-
Estate late N.M. Khumalo	19,008	17,913
Estate late J. Shabalala	132,091	124,497
Estate late F.N. Nhlebela	16,492	15,543
Estate late P.B. Vilakazi	57,977	54,644
Estate late Z.G. Mvelase	7,315	6,895
Estate late T.C. Mabaso	128,851	121,443
Estate Late M.N. Sithole	800	754
Estate late J.P. Sokhela	129,397	121,958
Estate late G. Matotoka	163,714	154,302
Estate late C. Buthelezi	63,533	59,881
Estate late S.I.T. Ndlovu	21,395	20,165
Estate late Z.P. Mthabela	1,049,078	988,763
Estate Late J.B. Sithole	62,210	58,633
Estate late M.M. Mncube	29	27
Estate late S.A. Luthuli	89,764	84,604
Estate late P.T. Majola	107,319	101,149
Estate late J.S. Sithole	88,709	83,609
Estate late L. Mbatha	198,844	187,412
Estate late E.Q. Xaba	286,315	278,800
Estate late X.M. Zimba	47,579	44,844
Estate late L.W. Ndimande	162,688	153,335
Estate late T.A. Malinga	482,875	455,113
Estate late M.J. Ntshaba	803,318	-
Estate late M.V. Buthelezi	1,107,503	-
Estate late D.G. Khoza	446,426	-
	5,673,230	3,134,284

Council employees previously had life cover under a Group Life Scheme which was cancelled, however employees now have life cover under Councils Insurance portfolio with Indwe Risk Services.

The trust funds are monies which were recieved from the Group Life Scheme or Councils insurers in respect of employees whom passed away while in service of the municipality.

Employees complete a beneficiary nomination form when they join the Municipality as an employee.

These trust funds represents monies held in trust by the municipality which have not been claimed by the nominated beneficiaries.

21. Other accruals

Advance receipts - Transfers	24,290,676	-
Bonus accrual	4,376,720	3,594,022
Leave pay accrual	14,018,417	11,197,755
	42,685,813	14,791,777

Other accruals amounts to R42,685,813 and (2015: R14,791,777).

R24,290,676 relates to advance payments received from National Departments. It has not yet been confirmed if the funding is in respect of Drought relief.

22. Consumer deposits

Water	11,885,907	10,473,849
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Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
22. Consumer deposits (continued)		
Represents deposits held by the Municipality paid by water consumers.		
23. Revenue		
Service charges	153,121,673	126,440,171
Interest received	20,214,647	19,148,562
Other income	3,566,813	3,122,395
Other income - donations	-	6,438,651
Interest received - Investment	11,991,453	9,072,588
Government grants & subsidies	568,331,256	607,994,895
	757,225,842	772,217,262
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	153,121,673	126,440,171
Interest received	20,214,647	19,148,562
Other income	3,566,813	3,122,395
Other income - donations	-	6,438,651
Interest received - Investment	11,991,453	9,072,588
	188,894,586	164,222,367
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	568,331,256	607,994,895
24. Service charges		
Sale of water	136,221,228	110,738,946
Sewerage and sanitation charges	16,900,445	15,701,225
	153,121,673	126,440,171

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
25. Government grants and subsidies		
Operating grants		
Equitable share		
Finance Management Grant	309,730,000	286,962,000
EPWP Integrated Grant	1,325,000	1,250,000
KZN Projects	2,384,000	3,299,000
Municipal Systems Improvement Grant	4,867,831	9,446,390
ACIP Grant	940,000	934,000
Water Services Operating Subsidy	-	992,435
	3,742,512	9,094,003
	<u>322,989,343</u>	<u>311,977,828</u>
Capital grants		
Regional Bulk Infrastructure Grant	5,927,294	83,741,726
Municipal Infrastructure Grant	181,268,677	199,088,868
Rural Household Infrastructure Grant	5,817,021	6,688,979
Municipal Water infrastructure Grant	50,000,000	4,182,493
sportsfields	33,964	-
Rural Transport Services Plan	2,294,957	2,315,000
	<u>245,341,913</u>	<u>296,017,066</u>
	<u>568,331,256</u>	<u>607,994,894</u>
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	258,601,256	321,032,894
Unconditional grants received	309,730,000	286,962,000
	<u>568,331,256</u>	<u>607,994,894</u>
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent consumers.		
Indigent consumers received a subsidy of R11,514,916 as at 30 June 2016 which was funded by the grant.		
Rural communities received free basic services to the amount of R36,537,546 which was also funded by the grant.		
In total R48,052,462 from the equity share allocation was used for the funding of free basic services for the 2015/2016 financial year.		
Rural Household Infrastructure		
Balance unspent at beginning of year	1,435,021	4,000,000
Current-year receipts	4,382,000	4,124,000
Conditions met - transferred to revenue	(5,817,021)	(6,688,979)
	<u>-</u>	<u>1,435,021</u>
Masibumbaneni Co-op		
Balance unspent at beginning of year	305,993	305,993
Conditions met - transferred to revenue	(305,993)	-
	<u>-</u>	<u>305,993</u>
Municipal Infrastructure Grant		

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
25. Government grants and subsidies (continued)		
Balance unspent at beginning of year		
Current-year receipts		
Conditions met - transferred to revenue	181,268,677 (181,268,677)	21,769,868 177,319,000 (199,088,868)
Municipal Water Infrastructure		
Balance unspent at beginning of year		
Current-year receipts		
Conditions met - transferred to revenue	50,000,000 (50,000,000)	2,786,882 1,395,611 (4,182,493)
Regional Bulk Infrastructure		
Current-year receipts		
Conditions met - transferred to revenue	30,217,969 (5,927,293)	83,741,726 (83,741,726)
Payments received in advance - included in current liabilities in the statement of financial position	(24,290,676)	-
Infrastructure Sports Fields		
Balance unspent at beginning of year		
Conditions met - transferred to revenue	33,964 (33,964)	33,964 -
LGSETA Grant - Training		
Balance unspent at beginning of year		
Current-year receipts		
Conditions met - transferred to revenue	83,680 281,796 (365,281)	59,338 174,114 (211,044)
Unspent liability transferred from Local Government SETA Grant in 2014/2015	-	61,272
Conditions still to be met at financial year end - remain liabilities (see note 16).	195	83,680
A business plan and application for roll over has been submitted to treasury.		
Water Services Operating Subsidy		
Balance unspent at beginning of year		
Current-year receipts		
Conditions met - transferred to revenue	742,512 3,000,000 (3,742,512)	836,515 9,000,000 (9,094,003)
IGR Grant		
Balance unspent at beginning of year		
Conditions met - transferred to revenue	98,126 (98,126)	107,850 (9,724)
LED Strategic Review		
	-	98,126

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
25. Government grants and subsidies (continued)		
Balance unspent at beginning of year	-	10,734
Conditions met - transferred to revenue	-	(10,734)
	<u>-</u>	<u>-</u>
District Disaster Centre		
Balance unspent at beginning of year	-	-
Conditions met - transferred to revenue	-	-
	<u>-</u>	<u>-</u>
KZN Backlog Study		
Balance unspent at beginning of year	1,393,461	5,009,853
Conditions met - transferred to revenue	(1,393,461)	(3,616,392)
	<u>-</u>	<u>1,393,461</u>
KZN Backlog Study		
Balance unspent at beginning of year	-	-
Conditions met - transferred to revenue	-	-
Transfers (consolidation of grants)	14,197	626
	(14,197)	-
	<u>-</u>	<u>13,571</u>
	<u>-</u>	<u>14,197</u>
The following grants has been consolidated into one, Backlog study R626 - Secreterial MFC R820 - ST Chads Emergency R5,891 and Social Pilot Project R6,860 in 2014/2015.		
District Development		
Balance unspent at beginning of year	-	13,921
Conditions met - transferred to revenue	-	(13,921)
	<u>-</u>	<u>-</u>
KZN Integrated Transport Plan		
Balance unspent at beginning of year	-	-
Conditions met - transferred to revenue	-	-
	<u>-</u>	<u>-</u>
KZN Secreterial MFC		
Balance unspent at beginning of year	-	378,755
Unspent liability has been transferred to the Backlog study grant in 2014/2015	-	(378,755)
	<u>-</u>	<u>-</u>
KZN St Chads Emergency		
Balance unspent at beginning of year	-	820
Unspent liability has been transferred to the Backlog Study Grant in 2014/2015	-	(820)
	<u>-</u>	<u>-</u>
KZN Assessment Water Services Delivery Plan		
Balance unspent at beginning of year	-	5,891
Unspent liability has been transferred to Water Infrastructure Maintenance Grant in 2014/2015	-	(5,891)
	<u>-</u>	<u>-</u>
KZN Assessment Water and Electricity		
Balance unspent at beginning of year	-	3,499
Unspent liability has been transferred to Water Infrastructure Maintenance Grant in 2014/2015	-	(3,499)
	<u>-</u>	<u>-</u>

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
25. Government grants and subsidies (continued)		
Balance unspent at beginning of year	-	38,927
Unspent liability has been transferred to water Infrastructure Maintenance grant in 2014/2015	-	(38,927)
	<u>-</u>	<u>-</u>
KZN Implement Technical & Scientific Support		
Balance unspent at beginning of year	-	251,231
Conditions met - transferred to revenue	-	(251,231)
	<u>-</u>	<u>-</u>
KZN Water Services Delivery Plan		
Balance unspent at beginning of year	-	35,359
Unspent liability has been transferred to Water Infrastructure Maintenance Grant in 2014/2015	-	(35,359)
	<u>-</u>	<u>-</u>
KZN Capacity Building Water Staff		
KZN WSA Institutional Support		
Balance unspent at beginning of year	-	12,281
Unspent liability has been transferred to Water Infrastructure Maintenance Grant in 2014/2015	-	(12,281)
	<u>-</u>	<u>-</u>
Local Government SETA Grant		
Balance unspent at beginning of year	-	61,272
Unspent liability has been transferred to LGSETA Training Grant in 2014/2015	-	(61,272)
	<u>-</u>	<u>-</u>
Social Pilot Projects		
Balance unspent at beginning of year	-	6,860
Unspent liability has been transferred to Backlog Study Grant in 2014/2015	-	(6,860)
	<u>-</u>	<u>-</u>
KZN Social Emabhekazi		
Balance unspent at beginning of year	-	69,535
Conditions met - transferred to revenue	-	(69,535)
	<u>-</u>	<u>-</u>
KZN Waste Management Plan		
Balance unspent at beginning of year	-	41,053
Conditions met - transferred to revenue	-	(41,053)
	<u>-</u>	<u>-</u>

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
25. Government grants and subsidies (continued)		
Conditions still to be met at financial year end - remain liabilities (see note 16).		
KZN DPSS Shared Services		
Balance unspent at beginning of year	881,034	2,651,524
Current-year receipts	250,000	250,000
Conditions met - transferred to revenue	(679,731)	(2,020,490)
	<u>451,303</u>	<u>881,034</u>
Conditions still to be met at financial year end - remain liabilities (see note 16).		
A business plan and application for roll over has been submitted to Treasury.		
DIMMS Grant Funding		
Balance unspent at beginning of year	-	30,120
Conditions met - transferred to revenue	-	(30,120)
	<u>-</u>	<u>-</u>
KZN Environment Management		
Balance unspent at beginning of year	61,859	800,874
Conditions met - transferred to revenue	(61,859)	(739,015)
	<u>-</u>	<u>61,859</u>
Department Water Affairs		
Balance unspent at beginning of year	-	1,140,252
Unspent liability has been transferred to Water Infrastructure Maintenance Grant in 2014/2015	-	(1,140,252)
	<u>-</u>	<u>-</u>
KZN Councillors Training		
Balance unspent at beginning of year	-	40,400
Conditions met - transferred to revenue	-	(40,400)
	<u>-</u>	<u>-</u>
KZN Municipal Governance & Admin		
Balance unspent at beginning of year	-	47,841
Conditions met - transferred to revenue	-	(47,841)
	<u>-</u>	<u>-</u>
Rural Road Asset Management		
Current-year receipts	2,311,000	2,315,000
Conditions met - transferred to revenue	(2,294,957)	(2,315,000)
	<u>16,043</u>	<u>-</u>
Conditions still to be met at financial year end - remain liabilities (see note 16).		

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
25. Government grants and subsidies (continued)		
A business plan and application for roll over has been submitted to Treasury.		
Finance Management Grant		
Current-year receipts	1,325,000	1,250,000
Conditions met - transferred to revenue	(1,325,000)	(1,250,000)
	-	-
Municipal Systems Improvement Grant		
Current-year receipts	940,000	934,000
Conditions met - transferred to revenue	(940,000)	(934,000)
	-	-
EPWP Integrated Grant		
Current-year receipts	2,384,000	3,299,000
Conditions met - transferred to revenue	(2,384,000)	(3,299,000)
	-	-
Water Infrastructure Maintenance		
Balance unspent at beginning of year	270,417	-
Conditions met - transferred to revenue	(270,417)	(959,901)
Consolidation of grants	-	1,230,318
	-	270,417
The following grants has been consolidated into one during the 2014/2015 financial year, (KZN Assessment R3,499 - KZN Assessment water R38,927 - KZN Water Services Delivery R35,359 - KZN Institutional Support R 12,281 - WDA Grant R1,140,252.) totalling R1,230,318.		
District Disaster Relief		
District Disaster Relief		
Balance unspent at beginning of year	1,678,765	2,685,000
Conditions met - transferred to revenue	(1,678,765)	(1,006,235)
	-	1,678,765
ACIP Grant		
Conditions met - transferred to revenue	-	992,435
Reimbursement in respect of the expenditure accrued has not been received at year end	-	(992,435)
	-	-
The ACIP grant is not received up front as is the case with other National transfer, but is received on a reimbursive nature. Once expenditure has accrued it is claimed back from the department. R992,435 has been spent at year end 30 June 2015 however the Municipality has not been reimbursed.		

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
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25. Government grants and subsidies (continued)

ACIP was raised as a debtor and the total amount spent (R992,435) was included in receivables from non exchange transactions in the statement of financial performance at year end 30 June 2015.

As at 30 June 2016 the expenditure incurred during the 2014/2015 financial year has not been reimbursed and are now funded internally.

This expenditure was transferred to the accumulated surplus account at the end of June 2016..

26. Other revenue

Other income

Other income - donations

3,566,813	3,122,395
-	6,438,651
<u>3,566,813</u>	<u>9,561,046</u>

The donations of R6,438,651 (2014/2015) represents the Bergville sewerage project (WIP) which was donated by Okhahlamba municipality.

The amount included in other revenue arising from exchanges of goods or services are as follows:

Sundry income		
Donations / sponsorships received	1,052,867	598,273
Tender deposits	70,000	-
Maps GIS	129,498	164,199
Connections water	-	191
Clearance certificates	952,950	1,089,276
Insurance claims received	182,583	169,541
Connections sewerage	6,966	180,526
Trade effluent income	53,608	49,862
Sewer disposal	1,118,117	870,478
Donated assets received from Okhahlamba Municipality - Bergville sewer	224	49
	-	6,438,651
	<u>3,566,813</u>	<u>9,561,046</u>

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
27. General expenses		
Advertising	595,112	505,977
Auditors remuneration	2,763,225	2,572,121
Bank charges	748,019	336,466
Cleaning	406,773	202,096
Commission paid	740,911	151,478
Computer expenses	1,809,108	1,442,316
Consulting and professional fees	28,652,869	17,542,674
Consumables	9,943	5,752
Entertainment	741,385	1,269,171
Conferences and seminars	178,567	123,624
IT expenses	1,422,338	405,403
Fleet	257,722	399,703
Magazines, books and periodicals	-	24,846
Medical expenses	89,823	-
Motor vehicle expenses	534,887	738,854
Fuel and oil	10,750,919	9,768,140
Postage and courier	6,861	5,601
Printing and stationery	2,132,973	1,713,307
Protective clothing	1,343,643	467,464
Security (Guarding of municipal property)	312,900	483,200
Subscriptions and membership fees	2,353,307	1,724,793
Telephone and fax	3,074,547	2,528,722
Training	5,610,240	2,542,099
Assets expensed	336,803	11,828,857
Electricity	54,040,050	52,060,544
Water	306,673	26,181
Audit committee	164,744	168,126
Government grant expenditure	60,602,981	51,033,559
Other expenses	38,327,084	20,713,048
	218,314,407	180,784,122

Government grant expenditure represents sanitation projects funded by the Municipal Infrastructure Grant (MIG) which does not get capitalized and is not reflected as PPE in the fixed asset register.

Assets expensed relates to expenditure incurred against the capital budget however these item are not of a capital nature and has therefore not being capitalised ad are not included in PPE in the Fixed Asset Register.

Consulting and professional fees which are included in general expenditure relates to the following.

Consultants and professional fees

Legal fees	17,985,250	7,784,668
Professional fees	6,746,252	2,814,638
Asset verification	2,216,500	3,000,000
VAT audit	1,704,867	3,943,368
	28,652,869	17,542,674

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
28. Employee related costs		
Basic	125,302,321	94,785,679
Bonus	8,027,942	6,735,689
Medical aid - employers contribution	4,326,013	3,748,303
UIF	1,075,154	813,160
SDL	1,626,773	1,235,138
Salga BC	47,152	35,765
Leave pay accrual	2,879,486	1,105,493
Leave pay	1,404,445	1,229,363
Defined contribution plans	563,911	202,287
Travel, motor car, accommodation, subsistence and other allowances	4,389,414	3,967,072
Overtime payments	22,831,139	18,037,650
Car allowance	8,479,749	7,678,906
Housing benefits and allowances	854,580	745,728
Surcharge Pension Fund	16,839,149	12,195,717
Sitting allowances traditional leaders	-	4,500
	198,647,228	152,520,450
Remuneration of Municipal Manager		
Annual Remuneration	1,010,892	937,044
Car Allowance	540,000	540,000
Contributions to UIF, Medical and Pension Funds	1,785	1,785
SDL	13,426	12,988
Travelling & subsistence	97,852	63,809
	1,663,955	1,555,626
The Municipal Manager was appointed as from 14 August 2013		
Remuneration of Chief Finance Officer		
Annual Remuneration	458,251	431,299
Car Allowance	393,109	377,387
Contributions to UIF, Medical and Pension Funds	1,785	1,785
SDL	10,535	10,028
Housing subsidy	280,792	269,562
Travelling & subsistence	131,959	51,216
	1,276,431	1,141,277
The Chief Financial Officer was appointed as from 6 January 2014		
Remuneration of Manager Technical Services		
Annual Remuneration	934,342	888,809
Car Allowance	135,783	130,351
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Standby allowance	237,761	188,916
SDL	12,807	11,820
Travelling & subsistence	32,208	6,259
	1,354,686	1,227,940
The Manager Technical Services was appointed as from 6 February 2012		
Remuneration of Executive Director Health and Environmental Services		

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
28. Employee related costs (continued)		
Annual Remuneration		
Car Allowance	724,928	172,069
Contributions to UIF, Medical and Pension Funds	270,116	617,101
Housing subsidy	1,872	467
Back pay	9,668	22,088
SDL	-	1,465,868
Travelling & subsistence	9,507	21,537
	19,374	1,753
	1,035,465	2,300,883

The Executive Director Health and Environmental Services was reinstated as from 1 April 2015 as per Labour Court judgement.

Remuneration of Manager Social and Economic Services

Annual Remuneration		
Contributions to UIF, Medical and Pension Funds	1,070,124	1,019,160
Acting allowance	1,785	1,785
Travelling & subsistence	21,154	-
SDL	78,043	47,746
	10,553	9,834
	1,181,659	1,078,525

The Manager Social and Economic services was appointed as from 1 August 2013

Remuneration of Manager Corporate Services

Annual Remuneration		
Car Allowance	882,637	869,160
Contributions to UIF, Medical and Pension Funds	187,487	150,000
SDL	1,785	1,784
Travelling & subsistence	10,326	9,892
	3,399	1,479
	1,085,634	1,032,315

The Manager Corporate Services has been appointed as from 1 July 2013

Remuneration of Manager Water Services

Annual Remuneration		
Contributions to UIF, Medical and Pension Funds	-	509,580
SDL	-	892
Leave paid out	-	6,156
	-	105,993
	-	622,621

The Manager Water Services was appointed as from 1 August 2013 and resigned with effect from 31 December 2014

The position of Manager Technical services and Manager Water Services has been consolidated.

29. Remuneration of councillors

Executive Mayor	590,296	559,522
Deputy Executive Mayor	306,133	207,106
Mayoral Committee Members	904,712	881,247
Speaker	472,235	447,617
Councillors	4,064,822	3,705,931
SDL	42,899	40,264
	6,381,097	5,841,687

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
29. Remuneration of councillors (continued)		
In-kind benefits		
The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor, Deputy Mayor and Speaker each have the use of separate Council owned vehicles for official duties.		
The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.		
30. Debt impairment		
Debt impairment - Consumer debtors	58,043,036	(67,536,493)
Debts impairment - Sundry Debtors	(67,561)	(3,612,454)
	<u>57,975,475</u>	<u>(71,148,947)</u>
The total debt impairment provision for consumer debtors is R372,374,278 as at 30 June 2015.		
The total debt impairment provision for sundry debtors is R698,582 as at 30 June 2015.		
The total debt impairment provision for consumer debtors is R430,417,314 as at 30 June 2016.		
The total debt impairment provision for sundry debtors is R631,021 as at 30 June 2016.		
The total debt impairment provision for consumer debtors increased by R58,043,036 as at 30 June 2016.		
The total debt impairment provision for sundry debtors decreased by R67,561 as at 30 June 2016.		
31. Investment revenue		
Interest revenue		
Interest received - Investments	<u>11,991,453</u>	<u>9,072,588</u>
The amount included in Investment revenue arising from non-exchange transactions amounted to R9,072,588 (2014/2015) and R11,991,453 (2015/2016).		
32. Depreciation and amortisation		
Property, plant and equipment		
	<u>49,197,065</u>	<u>45,537,144</u>
Depreciation and amortisation amounted to R45,537,144 at financial year end - 30 June 2015		
Depreciation and amortization amounted to R49,197,065 at financial year end - 30 June 2016.		
The amount of R49,197,065 in the statemet of financial preformance is made up as follows (R49,112,179 in respect of PPE and R84,886 in respect of intangible assets).		
Reference can be made to note 4 and 5.		
33. Finance costs		
Bank		
	<u>1,125,317</u>	<u>2,465,418</u>
34. Auditors' remuneration		
Fees		
	<u>2,763,225</u>	<u>2,572,121</u>

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
35. Lease rentals on operating leases		
Agreement of Lease - Lessors		
Enambithi Construction - rental offices Ladysmith	-	5,989,202
Itabiro Investment CC - rental parking space Ladysmith	99,000	231,000
Beukes JC - rental office Colenso	3,150	18,900
Sarjoo VR - Rental office Weenen	25,897	37,502
Rashid Suleman Trust - rental office Estcourt	-	22,542
Moon Magic Investment - rental office Estcourt	53,361	32,481
October Morn Investments CC	297,000	-
Konica Minolta - rental office machines (photo copiers)	242,367	283,243
	720,775	6,614,870

The lease agreement with Enambithi Construction CC is for the office space at 36 Lyell Street and 33 Forbes Street and is for the period 1 July 2014 to 30 June 2016.

A sale agreement for the purchase of the building at 33 Forbes Street was signed between Enambithi Construction CC and the municipality on the 30th of June 2015.

The lease agreement with Itabiro Investments CC is for a parking area for Council vehicles at 24/28 Murchison Street and was for the period 1 November 2014 to 31 January 2015. Thereafter on a month to month bases and terminated at the end of September 2015.

The lease agreement with Beukes JC was for the satellite office at 63/69 Sir George Street Colenso and was for the period 1 September 2013 to 31 August 2015.

The lease agreement with Sarjoo VR is for the satellite office at Retief Street in Weenen which commenced in January 2005 on a month to month bases and terminated in September 2015. A new contract was entered into for the period October 2015 to September 2018.

The lease agreement with Rashid Suleman Trust was for the satellite office at 127 Albert Street Estcourt and was for the period 1 December 2014 to 1 January 2015.

Rashid Suleman Trust is now known as Moon Magic Investments (PTY) LTD and the lease agreement is for the satellite office at 127 Albert Street Estcourt and is for the period 1 February 2015 to 31 January 2016 and was renewed for the period 1 February 2016 to 31 January 2017.

The lease agreement with October Morn Investments CC is on a month to month bases and is for parking space at 24-28 Murchison Street which commenced on the 1st of October 2015.

Office equipment is hired from Konica Minolta for a period of 36 months which -started in November 2013 and terminates in October 2016.

Additional office equipment is hired from Konica Minolta for a period of 36 months which started in December 2015 and terminates in November 2018.

Operating lease liabilities

Rental offices	378,853	634,124
36. Contracted services		
Water tankering	6,408,620	1,484,200
Plant and equipment hire	6,196,665	7,629,883
Insurance	1,842,859	1,718,029
Chemicals	6,924,667	5,990,617
Security (guarding Municipal property)	13,766,687	12,036,159
Water tankering - Drought relief	30,128,925	10,640,051
	65,268,423	39,498,939

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
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36. Contracted services (continued)

The municipality has spent R36,537,545 on water tankering (R6,408,620 and R30,128,925) during the 2015/2016 financial year and R12,124,251 (R1,484,200 and R10,640,051) during the 2014/2015 financial year.

The municipality has spent R24,413,294 more on water tankering during the 2015/2016 financial year as a result of the drought.

The increase is as a result of the drought. Water is supplied to rural communities by means of water tankers. The municipality has a contractual agreement with each service provider.

The amount of R12,036,159 (2014/2015) and R13,766,687 (2015/2016) is in respect of security guards required to guard municipal property which includes the water treatment and waste water treatment plants.

37. Repairs and maintenance

The following repairs and maintenance were performed to maintain municipal assets and were internally funded.

Repairs and maintenance performed on		
Buildings and offices		
Office furniture and equipment	1,402,364	238,486
Vehicles	-	4,225
Pipelines and reservoirs	8,021,403	3,380,419
Plant (water treatment and waste water treatment works)	11,699,213	17,279,027
Pumps	243,380	4,001,008
Blue drop and green drop	4,913,178	3,798,251
Refurbishment of existing schemes	724,336	5,360,455
Electrical	1,733,569	-
Disaster management vehicle	18,887	372,121
Repairs to old building	-	63,415
	66,059	-
	28,822,389	34,497,407

38. Bulk purchases

Water

	2016 R	2015 R
Water	7,691,917	6,169,480

The Department of Water Affairs bills the municipality for raw water extracted from rivers and dams which is then purified and distributed to the community "consumers"

Payments are made in respect of actual invoices received from DWA.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
39. Cash generated from operating activities		
Surplus		
Adjustments for:		
Depreciation and amortisation	74,413,945	204,927,026
Loss on sale of assets	49,197,065	45,537,144
Debt impairment	1,231,708	2,464,113
Changes accumulated surplus	57,975,475	(71,148,947)
Changes in working capital:	1,306,517	24,469,215
Increased/ (decrease) in inventories		
Increase/ (decrease) Trade and other receivables from exchange transactions	(329,935)	(628,037)
Increase/(decrease) receivables from exchange transactions	(226,423)	73,138,674
Increase/ (decrease) other receivables from non-exchange transactions	(77,122,560)	1,428,101
Donated furniture	(197,701)	(605,923)
Contributions to provisions - current	465,190	(688,643)
Increase/(decrease) in payables from exchange transactions	(20,183)	(38,541)
Increase unspent conditional grants and receipts	(57,205,632)	55,940,978
Contribution to provisions - non-current	(6,531,488)	(33,553,009)
Other financial liabilities	13,944,375	2,227,952
	12,418,184	36,042,807
	69,318,537	339,512,910

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
40. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	268,189,981	194,294,062
Municipal Infrastructure Grant (MIG)		
Driefontein professional fees		
Driefontein eastern bulk	2,999,564	15,954,955
Bhekuzulu phase 2	-	2,151,024
Bhekuzulu phase 3	-	1,420,126
Bhekuzulu phase 6	-	11,033,545
Bhekuzulu phase 7	-	3,296,998
Bhekuzulu phase 8	28,405,995	-
Bhekuzulu consultant fees	31,610,916	-
Kwanobamba / Ezitendeni consultants	-	20,031,113
Kwanobamba / Ezitendeni 1A	10,437,015	18,207,142
Kwanobamba / Ezitendeni 1B	-	4,585
Kwanobamba / Ezitendeni 1C	2,396,234	8,541,445
Kwanobamba / Ezitendeni 1E	-	153,464
Kwanobamba / Ezitendeni 2A	-	17,196,777
Kwanobamba / Ezitendeni 2C	18,385,004	-
Kwanobamba / Ezitendeni water supply	10,622,179	-
Ntabamhlophe water scheme phase 4	23,430,127	-
Ntabamhlophe water scheme phase 8	-	149,856
Ntabamhlophe phase 13	-	3,336,967
Ntabamhlophe consultants	12,189,761	-
Upgrade W & WTP Ladysmith & Ezakheni	670,367	4,226,421
Bergville phase 1	-	6,661,306
Bergville phase 2	454,185	4,221,987
Bergville sewer	-	3,727,306
Ezakheni treatment plant	84,584	3,622,373
Ezakheni / Emnambithi refurbishment	1,136,714	1,136,714
Ezakheni water reticulation consultants	4,214,311	5,555,385
Ezakheni water reticulation	608,677	851,959
Ezakheni E sanitation	4,092,149	2,932,105
Umhlumayo project	689,326	-
District disaster centre	20,666,532	24,777,711
Archie Rodel Colenso	4,159,533	11,430,355
Rural road asset management	2,642,866	2,649,145
Jononskop community water supply schemem	3,809,099	1,930,195
Kethani refurbishment & upgrade of WWTW	-	24,794
Spioenkop to Ladysmith pipeline	1,351	1,351
Hopsland to Indaka	1,760,217	213,498
Moyeni / Zwelisha	-	2,691,961
Mimosadale	2,691,127	180,719
Winterton water treatment	14,271,734	15,889,719
Boreholes drought relief	3,924,798	-
Lombardskop bulk water feeder	5,850,729	-
Whembezi bulk water	46,727,922	-
Mayibuye Consultants	8,818,893	-
	438,072	-
	268,189,981	194,203,001
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	7,695	46,815
Other commitments		

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
40. Commitments (continued)		
Creditors orders issued as at 30 June 2016	7,695	46,815
Total capital commitments		
Already contracted for but not provided for	268,189,981	194,294,062
Not yet contracted for and authorised by accounting officer	7,695	46,815
	268,197,676	194,340,877
Authorised operational expenditure		
Already contracted for but not provided for		
• Rental Offices	454,103	2,685,423
• Rental Office Machines	100,099	228,385
• Inkazimulo "professional fees"	3,000,000	-
• Red Spike Security "guarding of Municipal property"	14,245,554	592,000
• Bonakude Consulting "asset verification"	2,200,000	1,207,216
	19,999,756	4,713,024
Not yet contracted for and authorised by accounting officer		
• Creditors orders issued as at 30 June 2016	6,080,638	2,608,999
Total operational commitments		
Already contracted for but not provided for	19,999,756	4,713,024
Not yet contracted for and authorised by accounting officer	6,080,638	2,608,999
	26,080,394	7,322,023
Total commitments		
Total commitments		
Authorised capital expenditure	268,197,676	194,340,877
Authorised operational expenditure	26,080,394	7,322,023
	294,278,070	201,662,900
This committed expenditure relates to property plant and equipmeny as well as operational expenditure and will be financed by Grant funding, retained surpluses, existing cash resources, funds internally generated, etc.		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	554,201	7,251,695
- in second to fifth year inclusive	68,815	76,128
	623,016	7,327,823
Operating lease payments represents;		

Rentals payable by the municipality in respect of buildings rented for office space. Leases are negotiated for an average term of three years. No contingent rent is payable.

Parking space for Council vehicles. This is negotiated on a month to month basis.

Office machines rented from Konika Minolta. The rental is negotiated for a term of three years.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
41. Contingencies		
Contingent liabilities		
Ramkhelawan INC. - D Kistado	15,240	15,240
Ramkhelawan INC. - AMJ Hlongwane	174,261	174,261
Ramkhelawan INC. - Aurecon	378,607	378,607
Ramkhelawan INC. - J Potgieter	4,534	4,534
Ramkhelawan INC. - Jeffares & Green	576,484	576,484
Ramkhelawan INC. - Nambithi Pumps	5,795,972	2,795,972
Ramkhelawan INC. - Andile Thwala	100,000	100,000
Shepstone & Wylie - Abajabuli Project Services CC	15,190,398	15,190,398
Shepstone & Wylie - S Sewepersad	3,000,000	3,000,000
Shepstone & Wylie - Ubunzima Trading Enterprise CC	1,758,304	-
Shepstone & Wylie - Seema Devi Singh	450,000	-
Shepstone & Wylie - Lucia Sibongile Ndlovu	450,000	-
Shepstone & Wylie - Water and Sanitation Services South Africa	7,447,593	-
Shepstone & Wylie - Rasp Consultants CC	65,857	-
Shepstone & Wylie - Rasp Consultants CC	63,400	-
Shepstone & Wylie - Dass & Associates Attorneys	-	869,512
Justin Heunis & Company - RASP Consultants CC	-	65,857
	35,470,650	23,170,865

The following Contingent Liabilities are being attended to by Councils Legal representatives.

D. Kistado - Collison on motorcycle with a surveyors peg - Claim amount R15, 240 - The matter was set down for trial and postponed, There is a very good prospect of succeeding with the defence and Council's legal representative believe that the plaintiff's claim should have been against the Emnambithi/Ladysmith Municipality and not Uthukela.

A.M.J. Hlongwane - Eradication of Bucket Latrines in Ekuwukeni "Contract 19/2005" - Claim amount R174, 261 The matter has been defended in the High Court and are awaiting for the plaintiff to take the next step. The prospect of success hererin is good and Council's Legal representative suggest that they continue defending the matter.

Aurecon - Consultants fees not paid - Claim amount R378, 607 The matter has been defended and must proceed. Prospects of success are good considering previous consultations Councils Legal representative had with S. Mthethwa and B.H. khoza. for now the matter is pending as the plaintiff is negotiating settlement with the Municipality directly

J. Potgieter - burst pipe causing damages to wall and paving - Claim amount R4, 534 The matter has been defended and Council's Legal representative is awaiting a trial date. Plaintiff's claim is against the Municipality for damages to his wall and paving when a water pipe was repaired. Prospects of success are good.

Ubunzima Trading Enterprise CC - Claim amount R1, 758, 304 Summons was issued against the municipality in respect of retention monies which was not paid over to the plaintiff on completion of certain works as follows; Claim 1 - R1, 039, 355 for laying of pipe in Inkanyesi Community Water Supply Scheme, Claim 2 - R604, 395 for laying of pipes in the Bulk Water Scheme Bergville, Claim 3 - R114, 554 for the refurbishment and upgrade of waste water treatment works at Khethani. The pleadings in this matter have closed and preparations for trial will commence shortly.

Jeffares And Green - Consultant fees in respect of Berville water project - Claim amount R576, 484 The matter was set down for trial but removed from the roll as the plaintiff intends amending its papers. Council's Legal representative will inform Council once a new trial date has been set.

Lucia Sibongile Ndlovu - Claim amount R450, 000 The claim is in respect of salary and benefit dispute where the plaintiff alleges that the incorrect salary scale was applied by the municipality during the plaintiffs period of employment. The matter has been defended on behalf of the municipality and the plaintiff has filed a notice to amend its particulars of claim to the summons to which Shepstone & Wylie has objected.

Seema Devi Singh - Claim amount R450, 000 The claim is in respect of salary and benefit dispute where the plaintiff alleges that the incorrect salary scale was applied by the municipality during the plaintiffs period of employment. The matter has been defended on behalf of the municipality and the plaintiff has filed a notice to amend its particulars of claim to the summons to which Shepstone & Wylie has objected.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
41. Contingencies (continued)		
Nambithi Pumps - breach of contract - the claim amount increased from R2, 795, 972 to R5, 795, 972 which is in respect of the cost of the contract and the loss of profit. The plaintiff issued summons based on a breach of contract. The matter is being defended and will proceed to trial.		
Andile Thwala - injuries suffered by child - Claim amount R100, 000 The claim arised from injuries suffered by her child by falling into an exposed manhole. The matter is being defended and the Municipality's Insurers has contacted Councils Legal representative in this regard.		
IPTCO - No claim amount as the plaintiff brought an application to reassess the rates amount levied by the municipality on the farm. Matter is current and proceeding to trial. Thusfar there has been no movement by the plaintiff and it is suggested that the matter lie until the plaintiff makes the next move.		
Rasp Consultants CC T/A Vivah Technologies - Claim amount R63, 400 for goods and services allegedly rendered by the plaintiff to the municipality and not paid for. The matter has been defended and the pleadings have reached the discovery stage.		
Abajabuli Project Services CC - Claim amount R15, 190, 398 - This is a claim brought against the municipality by Abajabuli Project Services for breach of contract. Pleadings have closed and the matter is set down for 2, 3 and 4 November 2016.		
Ayoob Attorneys - (Representing Water and Sanitation Services South Africa (PTY) LTD) - Claim amount R7, 447, 593 plus interest at 9% per annum - A Court order was issued against the municipality on the 7th of March 2016 in favour of WSSA. The claim is in respect of payments due in respect of services rendered.		
On the 14th of April 2016 the sheriff of the Court issued a notice of attachment and nine municipal vehicles were recorded on the inventory to the amount of R7, 498, 000.		
The municipalities legal representative, Shepstone and Wylie has applied for a rescission of judgement. The outcome of the application for rescission is not known yet.		
The respondent has filed its answering affidavit and the municipality is in the process of reconciling the invoices to enable Council to draft the Municipalities replying affidavit.		
A Sewepersad - Claim amount R3, 000, 000.00 - In this matter a notice was sent to the municipality in terms of Sec 2 of Act 40 of 2002 by Viren Naidoo & Associates advising of their client's claim (A Sewepersad) against the municipality for the sum of R3, 000, 000 arising from the death of his wife and injuries to himself which were allegedly caused when the vehicle they were travelling in plunged into a deep trench which was allegedly dug by the municipality's employees and was not cordoned off. The municipality has referred this to its insurers who are in the process of investigating the matter.		
Dass & Associates - Claim amount R869, 512 - Dass & Associates issued summons against the municipality on the 22nd of December 2014 claiming R869, 512 in respect of legal fees which were alleged to have been unpaid by the municipality. This was denied by the municipality and Shepstone & Wylie were instructed to defend the action. No further steps have been taken by Dass & Associates to prosecute the matter further.		
RASP Consultants CC T/A Vivah Technologies - Claim amount R65, 857 - Justin Heunis & Co acting on behalf of the plaintiff has issued summons on the 18th of June 2015 against the municipality for an outstanding balance of R65, 857 due, owing and payable for goods sold, delivered and services rendered. The municipality is represented by Shepstone & Whyllie. The matter has been defended and the pleadings have reached the discovery stage.		

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

2016
R

2015
R

42. Related parties

Post employment benefit plan for employees of entity and/or other related parties

Keyhealth
Bonitas
Samwumed
Natal Joint Municipal Pension Fund

In respect of a municipality, the accounting authority or all the members (eg. Mayor, Speaker and Council members) and their close family relatives, are related parties of the municipality.

The senior management team of entities across all spheres of government (including the chief executive or permanent head of the entity) also forms part of management.

Key management information

Class	Description	Number
Board members	Executive Committee	4
Senior Management	Municipal Manager - Accounting Officer	1
Senior Management	Chief Financial Officer	1
Senior Management	General Manager Corporate Services	1
Senior Management	General Manager Technical and Infrastructural Services	1
Senior Management	General Manager Municipal Health & Water Services Authority	1
Senior Management	General Manager Social & Economic Services	1
Board Member	Mayor	1
Board Member	Deputy Mayor	1
Board Members	Councillors	23
Board Member	Speaker	1

The remuneration of key management is disclosed in note 28.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

43. Prior period errors and restatements

Prior period errors relates to corrections done in the 2015/2016 financial year which relates to the 2014/2015 financial year.

Restatements relates to expenditure which has been moved from one expenditure line item to another to restate the disclosures in the statement of financial performance and statement of financial position for the 2014/2015 financial year.

These corrections resulted in the following adjustments.

Statement of financial position	Audited balance as at 30 June 2015	Prior period errors/adjustments	Sub total	Reclassifications	Restated balance for 2014/2015
Receivables from non exchange transactions	5,765,784	-	5,765,784	61,296	5,827,080
Property plant and equipment	1,777,774,638	7,859,909	1,785,634,547	-	1,785,634,547
Payables from exchange transaction	(149,373,741)	(12,009,778)	(161,383,519)	(61,296)	(161,444,815)
VAT payable	26,882,368	53,806	26,936,174	-	26,936,174
	<u>1,661,049,049</u>	<u>(4,096,063)</u>	<u>1,656,952,986</u>	<u>-</u>	<u>1,656,952,986</u>
Statement of financial performance	Audited balance as at 30 June 2015	Prior period errors/adjustments	Sub totals	Reclassificationns	Restated balance as at 30 June 2016
Revenue from service charges	126,221,743	218,428	126,440,171	-	126,440,171
Employee related costs	(150,427,087)	(73,518)	(150,500,605)	(2,019,845)	(152,520,450)
remuneration of councillors	(5,795,952)	(45,735)	(5,841,687)	-	(5,841,687)
Depreciation and amortization	(45,064,848)	(472,296)	(45,537,144)	-	(45,537,144)
Lease rentals on operating leases	(6,611,544)	(3,326)	(6,614,870)	-	(6,614,870)
Repairs and maintenance	(25,362,170)	(866,669)	(26,228,839)	(8,268,568)	(34,497,407)
Bulk purchases	(5,304,471)	(865,009)	(6,169,480)	-	(6,169,480)
Contracted services	(27,549,667)	(546,370)	(28,096,037)	(11,402,902)	(39,498,939)
General expenditure	(199,047,347)	(3,428,090)	(202,475,437)	21,691,315	(180,784,122)
Loss on disposal of assets	(2,681,920)	217,807	(2,464,113)	-	(2,464,113)
	<u>(341,623,263)</u>	<u>(5,864,778)</u>	<u>(347,488,041)</u>	<u>-</u>	<u>(347,488,041)</u>

Due to prior year adjustments, expenditure incurred in the 2015/2016 financial year, which relates to the 2014/2015 financial year, certain comparative figures have been restated and re classified.

In terms of GRAP 1 and GRAP 3 operational grant expenditure has to be disclosed by nature of expence and therefore has been reclassified.

The effect of the restatements and re classifications are as follows.

Receivables from non exchange transactions increased from R5,765,784 to R5,827,080 (R61,296) in the statement of financial position.

Non-current assets (PPE) increased from R1,777,774,638 to R1,785,634,547 (R7,859,909) in the statement of financial position.

Payables from exchange transactions incresed from R149,373,741 to R161,444,815 (R12,071,074) in the statement of financial position.

Due to prior year adjustments in respect of service chargesVAT payable has increased from R26,882,368 to R26,936,174 (R53,806) in the statement of financial position.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

Total net assets therefore decreased from R1,816,411,020 to R1,812,645,479 (R3,765,541) in the statement of financial performance.

Revenue from service charges increased from R126,221,743 to R126,440,171 (R218,428) in the statement of financial performance. This is the result of corrections on consumer debtors account where no readings were taken and faulty meters detected. The municipality is in the process of replacing all the faulty meters.

Employee related costs increased from R150,427,087 to R152,520,450 (R2,093,363) in the statement of financial performance. This is the result of R73,518 (prior year adjustments) and R2,019,845 (re classification of operational grants expenditure).

Remuneration of councillors has increased from R5,795,952 to R5,841,687 (R45,735) in the statement of financial performance. This is the result of prior year adjustments.

Depreciation and amortization has increased from R45,064,848 to R45,537,144 (R472,296) in the statement of financial performance. This is as a result of prior year adjustments.

Lease rentals on operating leases increased from R6,611,544 to R6,614,870 (R3,326) in the statement of financial performance. This is as a result of prior year adjustments.

Repairs and maintenance increased from R26,362,170 to R34,497,407 (R9,135,237) in the statement of financial performance. This is the result of R866,669 (prior year adjustments) and R8,268,568 (re classification of operational grant expenditure).

Bulk purchases increased from R5,304,471 to R6,169,480 (R865,009) in the statement of financial performance which is the result of prior year adjustments.

Contracted services increased from R27,549,667, to R39,498,939 (R11,949,272) in the statement of financial performance. This is the result of R546,370 (prior year adjustments) and R11,402,902 (re classification of operational grant expenditure).

General expenditure decreased from R199,047,347 to R180,784,122 (R18,263,225) in the statement of financial position. This is the net result of the following movement.

R5,319,791 in respect of prior year adjustments.

Security services R190,500 has been reclassified as contracted services.

Free basic services (water tankering) R10,640,051 has been reclassified as contracted services.

Operational grant expenditure to the amount of R10,860,764 has been re classified as follows.

R2,019,845 has been re classified as employee related costs in the statement of financial performance.

R8,268,568 has been re classified as repairs and maintenance in the statement of financial performance.

R572,351 has been re classified as contracted services in the statement of financial performance.

The operating surplus for the 2014/2015 financial year has decreased from R210,501,307 to R204,636,533 (R5,864,778) in the statement of financial performance.

The re classification of grant expenditure has been affected in the statement of financial performance for the 2015/2016 financial year as well.

44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality has adopted and implemented a risk management policy to minimize potential adverse effects on the municipality's financial performance.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

44. Risk management (continued)

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.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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 the board.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Bank balance and cash	36,715,409	145,087,575
Consumer debtors from exchange transactions	143,360,258	124,087,951
Other receivables from exchange transactions	4,398,513	4,172,091
Receivables from non exchange transactions	6,024,781	5,765,784

45. Going concern

Accumulated surplus

1,888,226,981	1,813,110,669
---------------	---------------

We draw attention to the fact that at June 30, 2016, the municipality had accumulated surplus of R 1,888,226,981 and that the municipality's total assets exceed its liabilities by R 1,888,226,981.

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.

Management however acknowledges the decrease in cash and cash equivalents from R145,087,575 (2014/2015) to R36,715,409 (2015/2016) is a matter of concern and measures have been put in place to turn around the situation.

It must be noted that the drought and related expenditure had the biggest impact on the municipalities cash reserves. The cost of free basic services (supply of water with water tankers) increased from R12,124,251 (2014/2015) to R36,37,545 (2015/2016).

Critical senior positions which were vacant were filled during the year and employee related cost increased from R152,520,450 (2014/2015) to R198,647,228 (2015/2016).

The impact of the above on the municipalities cash reserves amounted to R24,413,294 in respect of water tankering and R46,657,154 in respect of employee related cost totalling R71,070,448.

Management has developed a revenue enhancement strategy and is implementing the credit control policy in an effort to improve revenue collection.

Management has also implemented MFMA circular 82 "cost containment measures" in an effort to cut down on operational expenditure.

The Water Services Department has implemented a strategy to cut down on overtime expenses.

Departments have submitted their procurement plans to the SCM unit in order to manage cash outflows.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

45. Going concern (continued)

Monthly cash flow projections will be performed and Management will re-asses the municipalities financial position after the first six months of the financial year.

46. Events after the reporting date

No events has been identified at reporting date or after reporting date which will lead to any adjustments to the financial statements.

47. Bad debt written off

Irrecoverable debt written off
Sundry debtors
Consumer debtors

	-	4,445,493
34,811,417		156,812,486
<u>34,811,417</u>		<u>161,257,979</u>

Irrecoverable debt in respect of Sundry debtors accounts to the amount of R4,445,493 has been written off during the 2014/2015 financial year. Reference can be made to the Council minutes of the 26th of February 2014 - A5/02/14

Irrecoverable debt in respect of Consumer debtors accounts to the amount of R156,812,486 has been written off during the 2014/2015 financial year. Reference can be made to the Council minutes of the 26th of February 2014 - A12/02/14

Irrecoverable debt in respect of consumer debtors accounts to the amount of R34,811,417 has been written off as at 30 June 2016.

The debt written off relates to indigent consumers.

48. Unauthorised expenditure

Reconcilliation of unauthorised expenditure
Opening balance
Unauthorised expenditure current year

89,010,639	9,983,109
116,799,552	79,027,530
<u>205,810,191</u>	<u>89,010,639</u>

Unauthorized expenditure during the 2014/2015 financial year
Unauthorized expenditure during the 2015/2016 financial year

-	79,027,530
116,799,552	-
<u>116,799,552</u>	<u>79,027,530</u>

Unauthorised expenditure R116,799,552 (2015/2016) and R79,027,530 (2014/2015) is the overspending of the total amounts appropriated in the municipality's approved budget for the financial years.

49. Fruitless and wasteful expenditure

Reconcilliation of fruitless and wasteful expenditure
Opening balance
Fruitless & wasetfull expenditure current year

4,683,751	4,277,878
120,263	405,873
<u>4,804,014</u>	<u>4,683,751</u>

Eskom
South African Revenue Services - SARS
Emnambithi / Ladysmith Municipality
Umtshezi Municipality
Telkom
Natal Joint Municipal Pension Fund
Development Bank of South Africa - DBSA

108,183	95,023
-	213,784
3,788	37,584
2,683	11,371
5,609	1,855
-	3,488
-	42,768
<u>120,263</u>	<u>405,873</u>

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

49. Fruitless and wasteful expenditure (continued)

Council has identified fraudulent transactions on the payroll which took place over the period March 2012 to February 2014. Internal audit has verified the fraudulent transactions which amounts to R4,592,424 in total.

Initially it was 27 employees whom were identified to be involved in these fraudulent activities. All 27 were dismissed. The employees in question referred the matter to arbitration. All of these cases, except one, have been finalized on the 18th of July 2016 and are still waiting for the outcome of the arbitration hearing.

All cases which has been finalized were in favour of the Municipality.

From the arbitration hearing two cases have been referred to Labour Court.

The date of the hearing was set for the 18th of August 2016.

Council is through a litigation process attempting to recover all moneys.

The amount of R4,592,424 is not included in the carry over amount of R4,683,751 in respect of fruitless and wasteful expenditure from the 2014/2015 financial year.

Fraudulent activities

Payroll fraud - March 2012 to February 2014

50. Irregular expenditure	4,592,424	4,592,424
Opening balance		
Add: Irregular Expenditure - current year	407,634,668	219,054,661
Add: Irregular expenditure - prior year - identified in current year 2015/2016	211,395,124	188,580,007
	92,627,600	-
	<u>711,657,392</u>	<u>407,634,668</u>

Management went as far back as practically possible to identify irregular expenditure incurred for the disclosure in the financial statements.

During the above mentioned reconciliation process adjustments in respect of the 2014/2015 financial year were identified.

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

50. Irregular expenditure (continued)

Details of irregular expenditure - no disciplinary steps taken/criminal proceedings

Irregular expenditure - corrections in respect of the previous financial year.

Section 114 deviations
Section 36 deviations
Section 32 deviations
Non compliance with SCM regulations
Expired contracts
Contracts over three years
Less than three quotations obtained

823,017
5,378,941
49,404,422
152,187,809
(6,466,741)
(63,540,798)
(45,159,050)
92,627,600

Irregular expenditure - in respect of the current financial year

Section 36 deviations
Section 32 deviations
Non compliance with SCM regulations
Expired contracts
Contracts over three years
Less than three quotations obtained

3,190,887
31,829,619
71,478,057
64,912,861
37,528,939
2,454,761
211,395,124

40,032,610
33,283,458
6,466,741
63,540,798
45,256,400
188,580,007

Details of irregular expenditure not recoverable (not condoned)

Irregular expenditure
Irregular expenditure in respect of the 2014/2015 financial year identified during the 2015/2016 financial year
Irregular expenditure in respect of 2015/2016

92,627,600
211,395,124
304,022,724

407,634,668
-
407,634,668

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee
Amount paid - current year

2,295,780
(2,295,780)
-

1,698,960
(1,698,960)
-

The contribution was in respect of annual subscription fees paid to SALGA

Audit fees

Current year subscription / fee
Amount paid - current year

2,431,977
(2,431,977)
-

2,572,121
(2,572,121)
-

PAYE and UIF

Current year subscription / fee
Amount paid - current year

29,752,647
(29,752,647)
-

19,763,208
(19,763,208)
-

Uthukela District Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

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

Pension and Medical Aid Deductions

Current year subscription / fee
Amount paid - current year

21,165,162	22,267,770
(21,165,162)	(22,267,770)
-	-

VAT

VAT payable

29,295,512	26,882,368
------------	------------

The Municipality is on a payment bases for VAT purposes. The Municipalities debtors have not paid for services which have been rendered which has resulted in the municipality reporting a VAT payable at year end.

The municipality appointed OMA Chartered Accountants to perform a VAT audit from 2009/2010.

All VAT returns for the 2014/2015 financial year have been submitted and the municipality received VAT refunds to the amount of R99,446,020 as at 30 June 2015.

All VAT returns for the 2015/2016 financial year have been submitted and the municipality received VAT refunds to the amount of R34,053,183 as at 30 June 2016.

Councillors' arrear consumer accounts

As at June 30, 2016 there are no Councillors which has arrear consumer accounts.

52. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E for the comparison of actual operating expenditure versus budgeted expenditure.

53. Water Losses

Estimated water losses for the year

Water losses - Quantity (kiloliters)

Water losses - Cost (rands)

26,369,801	24,282,885
153,475,400	122,553,224
153,475,400	122,553,224

An independant party, Jeffares & Green Engineering and Environmental Consultants has been approached to obtain the production capacities of the water purification plants.

The estimation of water losses was done by comparing the production capacity of the water purification plants, obtained from Jeffares & Green, against the water consumption billed to consumers for the year.

Included in the water losses disclosed above are the provision of water in areas where there are standpipes and areas where there are no water infrastructure. Internal and outsourced water tankers are used to transport water to areas where there are no water infrastructure.

The Oliphantkop dam which is the main sources of water being supplied to the Indaka area has dried up as a result of the drought. The whole of Indaka is therefore also supplied with water by means of water tankers.

The table below represents the water losses as a percentage of the production capacity of the water purification plants.

%	%
79	73

Analysis of property, plant and equipment as at 30 June 2016
Cost/Revaluation
Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	1,037,872	-	-	-	-	-	1,037,872	-	-	-	-	-	-	1,037,872
Buildings (Separate for AFS purposes)	31,932,857	18,750	-	(318,000)	-	-	31,633,607	(495,408)	-	-	(969,220)	-	(1,464,628)	30,168,979
	<u>32,970,729</u>	<u>18,750</u>	<u>-</u>	<u>(318,000)</u>	<u>-</u>	<u>-</u>	<u>32,671,479</u>	<u>(495,408)</u>	<u>-</u>	<u>-</u>	<u>(969,220)</u>	<u>-</u>	<u>(1,464,628)</u>	<u>31,206,651</u>
Infrastructure														
Water purification	1,374,065,537	3,150,220	-	-	-	-	1,606,917,021	(212,457,060)	-	-	(33,544,998)	-	(248,002,058)	1,360,914,963
Sewerage purification	157,685,550	525,207	-	229,681,264	-	-	158,210,757	(58,286,251)	-	-	(4,438,576)	-	(62,724,029)	95,485,928
	<u>1,531,771,087</u>	<u>3,675,427</u>	<u>-</u>	<u>229,681,264</u>	<u>-</u>	<u>-</u>	<u>1,765,127,778</u>	<u>(270,743,311)</u>	<u>-</u>	<u>-</u>	<u>(37,983,576)</u>	<u>-</u>	<u>(308,726,887)</u>	<u>1,456,400,891</u>
Community Assets														

Analysis of property, plant and equipment as at 30 June 2016
Cost/Revaluation
Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Fire														
Other assets														
General vehicles	46,355,649	2,444,639	(2,934,901)	9,337,089	-	-	55,202,476	(9,931,215)	1,813,760	(6,694,594)	(9,122,313)	-	(23,934,354)	31,268,122
Plant & equipment	114,654	-	-	-	-	-	114,654	(72,708)	-	-	(19,471)	-	(92,179)	22,475
Computer Equipment	3,692,690	1,254,091	(437,771)	-	-	-	4,509,010	(2,159,606)	362,896	-	(472,033)	-	(2,266,743)	2,240,267
Furniture & Fittings	2,761,435	1,116,550	(148,600)	-	-	-	3,729,385	(1,884,642)	133,009	-	(247,693)	-	(1,999,246)	1,730,139
Office Equipment	1,539,084	539,688	(309,226)	318,000	-	-	2,087,546	(1,072,667)	332,578	-	(206,688)	-	(946,777)	1,140,769
Work in progress	449,988,230	169,211,202	-	(229,681,264)	-	-	389,516,168	(6,694,594)	-	6,694,594	-	-	-	389,516,168
Other Assets - Leased	9,337,089	-	-	(9,337,089)	-	-	-	-	-	-	-	-	-	-
	513,708,831	174,566,170	(3,830,498)	(229,363,264)	-	-	455,161,239	(21,815,432)	2,642,331	-	(10,068,198)	-	(29,241,293)	425,919,940
	810,515	-	-	-	-	-	810,515	(652,465)	-	-	(91,183)	-	(743,648)	66,867
	810,515	-	-	-	-	-	810,515	(652,465)	-	-	(91,183)	-	(743,648)	66,867

Analysis of property, plant and equipment as at 30 June 2016
Cost/Revaluation
Accumulated depreciation

Cost revaluation												Accumulated depreciation													
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand												
Total property plant and equipment																									
Land and buildings	32,970,729	18,750	-	-	-	32,671,479	(495,408)	-	-	-	(969,220)	-	(1,464,628)	31,206,851											
Infrastructure	1,531,771,087	3,675,427	-	(318,000)	-	1,765,127,778	(270,743,311)	-	-	(37,983,576)	-	(308,726,887)	1,456,400,891												
Specialised vehicles	810,515	-	229,681,264	-	-	810,515	(652,465)	-	-	(91,183)	-	(743,648)	66,867												
Other assets	513,788,831	174,566,170	(3,830,498)	(229,363,264)	-	455,161,239	(21,815,432)	2,642,331	-	(10,068,198)	-	(29,241,299)	425,919,940												
	2,079,341,162	178,260,347	(3,830,498)	-	-	2,253,771,011	(293,706,616)	2,642,331	-	(49,112,177)	-	(340,176,462)	1,913,594,549												
Agricultural/Biological assets																									
Intangible assets																									
Computer software	297,957	543,600	(43,543)	-	-	798,014	(59,755)	-	-	(84,885)	-	(144,640)	653,374												
	297,957	543,600	(43,543)	-	-	798,014	(59,755)	-	-	(84,885)	-	(144,640)	653,374												
Investment properties																									
Total																									
Land and buildings	32,970,729	18,750	-	(318,000)	-	32,671,479	(495,408)	-	-	(969,220)	-	(1,464,628)	31,206,851												
Infrastructure	1,531,771,087	3,675,427	-	229,681,264	-	1,765,127,778	(270,743,311)	-	-	(37,983,576)	-	(308,726,887)	1,456,400,891												
Specialised vehicles	810,515	-	-	-	-	810,515	(652,465)	-	-	(91,183)	-	(743,648)	66,867												
Other assets	513,788,831	174,566,170	(3,830,498)	(229,363,264)	-	455,161,239	(21,815,432)	2,642,331	-	(10,068,198)	-	(29,241,299)	425,919,940												
Intangible assets	297,957	543,600	(43,543)	-	-	798,014	(59,755)	-	-	(84,885)	-	(144,640)	653,374												
	2,079,639,119	178,803,947	(3,874,041)	-	-	2,254,569,025	(293,766,371)	2,642,331	-	(49,197,062)	-	(340,321,102)	1,914,247,923												

Analysis of property, plant and equipment as at 1 July 2015
Cost/Revaluation
Accumulated depreciation

	Operating Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	1,037,872	-	-	-	-	-	1,037,872	-	-	-	-	-	-	1,037,872
Buildings (Separate for AFS purposes)	1,932,857	30,000,000	-	-	-	-	31,932,857	(416,663)	-	-	(78,745)	-	(495,408)	31,437,449
	2,970,729	30,000,000	-	-	-	-	32,970,729	(416,663)	-	-	(78,745)	-	(495,408)	32,475,321
Infrastructure														
Water purification	1,269,559,885	107,323,504	(2,797,852)	-	-	-	1,374,085,537	(182,345,203)	1,604,519	-	(31,716,378)	-	(212,457,122)	1,161,628,415
Sewerage purification	158,193,050	-	(507,500)	-	-	-	157,685,550	(52,526,130)	358,561	-	(6,118,622)	-	(56,286,191)	99,398,359
	1,427,752,935	107,323,504	(3,305,352)	-	-	-	1,531,771,087	(234,871,393)	1,963,080	-	(37,835,000)	-	(270,743,313)	1,261,027,774
Community Assets														
Fre. safety & emergency	810,515	-	-	-	-	-	810,515	(581,545)	-	-	(70,920)	-	(652,465)	158,050
	810,515	-	-	-	-	-	810,515	(581,545)	-	-	(70,920)	-	(652,465)	158,050

Analysis of property, plant and equipment as at 1 July 2015 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Other assets														
General vehicles	16,234,287	31,066,719	(945,357)	-	-	-	46,355,649	(4,752,986)	870,972	-	(6,049,201)	-	(9,931,215)	36,424,434
Plant & equipment	415,404	-	(300,750)	-	-	-	114,654	(250,332)	199,899	-	(22,275)	-	(72,706)	41,946
Computer Equipment	4,735,201	1,005,557	(2,048,088)	-	-	-	3,692,669	(2,899,366)	1,213,545	-	(473,782)	-	(2,159,603)	1,533,087
Furniture & Fittings	2,397,531	567,719	(203,815)	-	-	-	2,761,435	(1,749,663)	136,226	-	(271,205)	-	(1,884,642)	876,793
Office Equipment	1,476,168	403,287	(340,371)	-	-	-	1,539,084	(1,013,963)	223,522	-	(282,226)	-	(1,072,667)	466,417
Radio equipment	86,560	-	(96,560)	-	-	-	-	(81,150)	81,150	-	-	-	-	-
Lawnmowers	1,275	-	(1,275)	-	-	-	-	(1,146)	1,146	-	-	-	-	-
Other Water	2,000	-	(2,000)	-	-	-	-	(1,620)	1,620	-	-	-	-	-
Work in progress	311,652,883	249,456,332	-	(111,120,985)	-	-	449,988,230	(5,300,460)	-	-	(1,394,134)	-	(6,694,594)	449,988,230
Other Assets - Leased	9,337,089	-	-	-	-	-	9,337,089	(16,050,686)	2,728,082	-	(8,492,823)	-	(21,816,429)	491,973,402
	346,338,398	282,499,614	(3,928,196)	(111,120,985)	-	-	513,788,831	(16,050,686)	2,728,082	-	(8,492,823)	-	(21,816,429)	491,973,402

Analysis of property, plant and equipment as at 1 July 2015 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	2,970,729	30,000,000	-	-	-	-	32,970,729	(416,663)	-	-	-	-	(495,408)	32,475,321
Infrastructure	1,427,752,935	107,323,504	(3,305,352)	-	-	-	1,531,771,087	(234,871,393)	1,963,080	-	(78,745)	-	(270,743,313)	1,261,027,774
Community Assets	810,515	-	-	-	-	-	810,515	(581,545)	-	-	(37,835,000)	-	(652,465)	158,050
Other assets	346,338,398	282,499,614	(3,928,196)	(111,120,985)	-	-	513,788,831	(16,050,688)	2,728,082	-	(8,492,823)	-	(21,815,429)	491,973,402
	1,777,872,577	419,823,118	(7,233,548)	(111,120,985)	-	-	2,079,341,182	(251,920,289)	4,691,162	-	(46,477,488)	-	(233,706,615)	1,785,634,547
Intangible assets														
Computer software	120,122	177,835	-	-	-	-	297,957	(11,252)	-	-	(48,503)	-	(59,755)	238,202
	120,122	177,835	-	-	-	-	297,957	(11,252)	-	-	(48,503)	-	(59,755)	238,202
Total														
Land and buildings	2,970,729	30,000,000	-	-	-	-	32,970,729	(416,663)	-	-	-	-	(495,408)	32,475,321
Infrastructure	1,427,752,935	107,323,504	(3,305,352)	-	-	-	1,531,771,087	(234,871,393)	1,963,080	-	(78,745)	-	(270,743,313)	1,261,027,774
Community Assets	810,515	-	-	-	-	-	810,515	(581,545)	-	-	(37,835,000)	-	(652,465)	158,050
Other assets	346,338,398	282,499,614	(3,928,196)	(111,120,985)	-	-	513,788,831	(16,050,688)	2,728,082	-	(8,492,823)	-	(21,815,429)	491,973,402
Intangible assets	120,122	177,835	-	-	-	-	297,957	(11,252)	-	-	(48,503)	-	(59,755)	238,202
	1,777,992,699	420,000,953	(7,233,548)	(111,120,985)	-	-	2,079,639,119	(251,931,541)	4,691,162	-	(46,525,991)	-	(233,766,370)	1,785,872,749

Segmental Statement of Financial Performance for the year ended
Prior Year **Current Year**

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
47,667,589	35,481,016	12,186,573	Executive & Council/Mayor and Council	49,737,507	68,231,479	(18,493,972)
257,731,606	199,364,893	58,366,713	Finance & Admin/Finance	275,447,883	212,986,897	62,460,986
5,319,490	25,929,863	(20,610,373)	Planning and Development/Economic Development/Plan	3,063,731	30,562,519	(27,498,788)
-	15,624,644	(15,624,644)	Health/Clinics	-	18,714,103	(18,714,103)
152,128,343	215,318,601	(63,190,258)	Water/Water Distribution	191,107,759	302,892,031	(111,784,272)
462,847,028	491,719,017	(28,871,989)		519,356,880	633,387,029	(114,030,149)
Municipal Owned Entities						
Other charges						
462,847,028	491,719,017	(28,871,989)	Municipality	519,356,880	633,387,029	(114,030,149)
462,847,028	491,719,017	(28,871,989)	Total	519,356,880	633,387,029	(114,030,149)

Yearly

	Forecast # 1		Forecast # 1		Variance	Explanation of Significant Variances greater than 10% versus Budget
	2016 Adjusted budget Rand	2016 Act. Bal. Rand	2016 Forecast # 1 Rand	2016 Forecast # 1 Rand		
Revenue						
Service charges	165,108,000	153,121,673	11,986,327	7.8	As a result of revenue foregone (free basic services) indigent subsidies	
Interest earned external investments	10,010,000	11,991,453	(1,981,453)	(16.5)	Interest earned on surplus cash being invested	
Interest earned - outstanding debtors	26,568,000	20,214,647	6,353,353	31.4	Budget not realized due to indigent subsidies and writing off of indigent debt	
Transfers recognized - operational	314,628,000	322,989,343	(8,361,343)	(2.6)	100% expenditure on grants which includes carry overs from the 2014/2015 financial year	
Transfer recognized - capital	237,940,000	245,341,913	(7,401,913)	(3.0)	100% expenditure on grants which includes carry overs from the 2014/2015 financial year	
Other revenue	356,000	3,566,813	(3,210,813)	(90.0)	Other income was not accurately budgeted for	
	754,610,000	757,225,842	(2,615,842)	(0.3)		
Expenses						
Personnel						
Remuneration of councillors	(219,377,000)	(198,647,228)	(20,729,772)	10.4	Critical position were filled towards the second half of the year	
Depreciation	(6,146,000)	(6,381,097)	235,097	(3.7)	Councillors back pay in term of Government notice on Councilors upper limit dated December 2015	
Impairments	(51,431,000)	(49,197,065)	(2,233,935)	4.5	Depreciation of PPE was over provided for	
Finance costs	-	(57,975,475)	57,975,475	'100.0)	Provision for bad debt budget is included in budget for general expenditure	
Bad debts written off	-	(1,125,317)	1,125,317	'100.0)	Bank charges is included in budget for general expenditure	
Lease rentals on operating leases	(28,222,000)	(34,811,417)	6,589,417	(18.9)	Write of indigent consumer debt was under budgeted for	
Repairs and maintenance - General	-	(720,775)	720,775	'100.0)	Budget in included in budget for general expenditure	
Bulk purchases	(41,605,000)	(28,822,389)	(12,782,611)	44.3	Underspending on maintenance and repairs	
Contracted Services	(5,535,000)	(7,691,917)	2,156,917	(28.0)	Actual invoices paid submitted by DWA	
General Expenses	(46,234,000)	(65,268,423)	19,034,423	(29.2)	Budget has been overspent due to more water tankers being contracted as a result of the drought	
	(172,360,000)	(218,314,407)	45,954,407	(21.0)	Grant expenditure on operating grants now disclosed per expenditure line item	

Yearly

	Forecast # 1 2016	Forecast # 1 2016	Act. Bal.	Variance	Explanation of Significant Variances greater than 10% versus Budget
	Adjusted budget				
Other revenue and costs	(570,910,000)	(668,955,510)	98,045,510	(14.7)	
Gain or loss on disposal of assets and liabilities	-	(1,231,708)	1,231,708	'100.0)	Loss on disposal of assets
Inventories losses/write- downs	-	(344,075)	344,075	'100.0)	Inventory losses recognized with stock taking as at 30 June 2016
Gain or loss on disposal of non-current assets held for sale or disposal groups	-	-	-	-	
Gain (Loss) on actuarial valuations	-	(12,280,604)	12,280,604	'100.0)	Gain on Medical aid post retirement benefit obligation
Net surplus/ (deficit) for the year	-	(13,856,387)	13,856,387	'100.0)	
	183,700,000	74,413,945	109,286,055	146.9	

Annexure C

The Honourable Speaker
Uthukela District Municipality
33 Forbes Street
Ladysmith
3370

REPORT OF THE AUDIT COMMITTEE TO THE COUNCIL OF UTHUKELA DISTRICT MUNICIPALITY

FOR THE PERIOD ENDED 30 JUNE 2016

The audit committee has the pleasure in submitting this report to the Council of Uthukela District Municipality. This report is submitted in terms of the provision of sections 121 (3)(j), 166(2)(b) and 166(2)(c) of the Municipal Finance Management Act of 2003 ("the MFMA") and covers the financial year from 1 July 2015 to 30 June 2016.

The legal responsibilities of the Audit Committee are set out in terms of the Municipal Finance Management Act, No. 56 of 2003 (Section 166) read in conjunction with the National Treasury's MFMA Circular 65.

Audit Committee members and attendance at meetings

The Audit Committee as appointed in November 2015 is comprised of 5 independent, external members and is required to meet at least 4 times per annum as per the Audit Committee Charter and the MFMA. However, additional meetings may be called as the need arises. Members' attendance at the meetings is listed below:

<u>Name</u>	<u>No of Meetings Attended</u>	<u>26 January 2016</u>	<u>26 April 2016</u>	<u>12 May 2016</u>
Ms. N Mchunu (Chairperson)	3	✓	✓	✓
Ms Z Khanyile	2	✓		✓
Mr. D Mncwabe	3	✓	✓	✓
Mr S Majola	2	✓	✓	
Ms Y Joyi	2	✓		✓

It is important to note that the meeting was held in August 2015, by the previous Audit committee to consider the financial statements for the year ended 30 June 2015. Thus the audit committee has had at least four meetings for the year ended 30 June 2016, as per requirement in terms of the MFMA.

The following are standing invitees to the Audit Committee Meetings.

Representative from	Office of the Auditor-General (AG)
Representatives from	Provincial Treasury and COGTA
MPAC Chairperson	
Internal Audit Manager	
The Municipal Manager (MM)	
The Chief Financial Officer (CFO)	
Heads of Departments	
PMS Manager	
Risk Manager	

Audit Committee responsibility

The Audit Committee has been set up in accordance with the Municipal Finance Management Act, No. 56 of 2003 (Section 166) and operates within the terms of the Audit Committee Charter which has been approved by the Council of the Uthukela District Municipality.

Section 121(4)(g) of the Municipal Finance Management Act, No. 56 of 2003 also requires that the annual report must include any recommendations of the Municipality's Audit Committee.

In the conduct of its duties, the Audit Committee has performed the following statutory duties:

1. Reviewed internal financial control and internal audits

For the purposes of executing its statutory duties as contained in section 166(2)(a) of the MFMA as well as its mandate as set out in the Audit Charter, the Audit Committee relies on the work done by the Internal Audit Unit.

The risk based internal audit plan, as previously approved by the former Audit Committee, for the financial year ending 30 June 2016 was presented and accepted by the Audit Committee. The plan was based on the risk assessment conducted and findings from the audits conducted by the Auditor General and internal auditors. The

Audit Committee at each meeting; assesses performance against the plan and reviews the plan to ensure that critical risks relating to the administration and operations of Uthukela District Municipality are identified and addressed.

Ten internal audit reports for the Municipality (covering quarters 1 to 3), were completed and tabled at the Audit Committee meetings held during the reporting period.

The internal audit reports included recommendations to improve internal controls together with agreed management action plans to resolve the issues reported on. To further enhance the processes in place, internal audit conducts follow up audits on previously reported internal audit findings and reports progress to senior management and the Audit Committee.

The Audit Committee has expressed concern that the overall internal audit conclusions indicated an inadequate control framework resulting from significant control weaknesses being noted in certain areas. Management has fully accepted the findings and has assured the Committee that they are currently in the process of implementing the appropriate systems of internal control and corrective actions to address the identified weaknesses and possible irregularities are also being implemented. The Committee and the Internal Audit unit will monitor the progress made by management through follow up audits and progress will be reported to Council from time to time.

2. Risk Management

The MFMA requires the accounting officer of the municipality to take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management and internal control.

The municipality currently has a system of managing risk, as required in terms of S 63 of the MFMA. This function involves an annual assessment of municipal risk, and periodic risk reviews carried out by the Risk Manager, management and relevant personnel at the municipality.

The Municipality conducted a risk assessment workshop for financial year 2015/16, and the top key risks were identified, measured and prioritised. The Risk Committee reviews the status of the top 14 risks against management action plans from time to time. During this process emerging risk is also identified.

The last report was submitted and presented to the committee in a meeting held in May 2016.

3. Review of financial statements and Accounting Policies.

The Audit Committee has the obligation to review the Municipality's Annual financial statements and provide the Council with an authoritative and credible view of the Municipality's financial position, performance and cashflow position. In order to do this, the audit committee relies on the work conducted by the Internal Auditors, and therefore such reviews have been provided for in the Annual Internal Audit Plan.

A number of findings were raised by the Office of the Auditor General (AGSA) during the audit of the 2014/15 financial statements. Management has formulated and implemented

action plans to address the findings raised by the AGSA, especially the matters that affected the audit opinion on the 2014/15 financial statements. Management has further held meetings with the Auditor General's office to discuss the progress made in addressing the 2014/15 findings and necessary adjustments were processed in the accounting system to correct the opening balances.

The matters that led to the qualification of the municipality's audit opinion issued by the AG in during the 2014/15 audit, included:

- Completeness and accuracy of service charges,
- Irregular expenditure and
- Comparative information for receivables from non-exchange transactions.

The Internal Audit unit carried out audit reviews of the progress of the implementation of the action plans to address the AG's findings. From these reviews, it transpired that most of the findings had been addressed and necessary adjustments had been processed.

The Committee also held a meeting on 22 August 2016, to review the draft financial statements and the draft annual performance report for the 2015/16 year. Before this meeting, the internal audit unit conducted a review on the two documents and raised findings which were subsequently addressed by management. These documents were further presented to the committee by management, and a few concerns were mostly relating to the presentation and disclosure in the financial statements. Further to that the committee raised concerns regarding the completeness of the information presented in the Annual performance report. The committee therefore noted the financial statements and performance reports, with changes, before submission to the Auditor General.

The Audit Committee further performed an analytical review on the 2015/16 financial statements presented. There were a few concerns that emanated from this review, and these include:

- The Municipality's cash flow position as at year end, where the municipality's financial obligations at year end significantly exceeded the financial resources available. The Municipality's cash and cash equivalents amount to R 36 million at year end against the current obligations amount to R 196 million.
- Debtors to the value of the R 143 million have been disclosed as part of the statement of financial position, however further scrutiny of this balance revealed that the balance is mostly made up of long outstanding debtors. This raises a concern regarding the recoverability of these amounts as these debtors balances have outstanding for over 120 days.
- Expenditure incurred in relation to drought relief programs which has not been budgeted for and amounted to R 30 million. This has already resulted in an unfavourable cash flow position at the municipality.
- Amounts owing to the municipality, in respect of a payment that was processed to an incorrect account, amounting to R 899 000.
- Recoverability of the balance (R 4 million) owing on an amount incurred by the municipality in respect of salary fraud.

- The high amounts of expenditure incurred on professional fees by the Municipality which amounted to R 28 million, legal fees make R 18 million of professional fees.
- The level of irregular expenditure at the municipality for the current year amounted to R 208 million (2015: R 408 million). Although the amount incurred for the year has decreased when compared to the prior year, it is still significantly high and requires immediate attention from management and council in accordance with S 32 of the MFMA.
- Water losses reported at year end, amounted to R 153 million, representing 79% of production capacity. This has been discussed with management who have assured the committee that this currently being looked at, and the committee has emphasised the importance of addressing matter, as the Province is currently experiencing a severe drought.

These issues were discussed with management, and the committee was assured that they are being addressed. Most importantly management has indicated that they have developed a financial recovery plan in place, which is currently being implemented. The committee has asked for the plan to form part of the standard agenda of the committee and that management must report on the progress, together with cash flow forecasts for the future months.

All the issues will in the same token be followed with management in future meetings, however the committee would to urge Council to also follow up and monitor, action plans by management to address these matters.

The financials were submitted to the office of the Auditor General on 31 August 2016 for audit, in line with the MFMA. The Audit Committee chairperson was also invited to attend the presentation of the draft management report by the Auditor General, where findings raised by the AG were discussed and further evidence was presented by management.

The committee is very pleased to report that the Municipality obtained an unqualified opinion on its financial audit by the Auditor General. This was a vast improvement from the previous year where the Municipality received a qualified report. The Committee acknowledges the efforts, hard work and commitment by management and staff during the year end preparation and audit process. This has yielded very favourable results for the municipality.

Notwithstanding the qualified opinion, the Auditor General also raised matters of emphasis in his report, which will require urgent attention from the Council and the committee, and these included the following:

- Water losses incurred by the municipality which amounted to R 153m.
- Recoverability of balances owing by Consumer debtors.

4. *The adequacy, reliability and accuracy of financial reporting and information*

The committee is also required to advise council on the adequacy, reliability and accuracy of financial reporting and information in accordance with S 166 of the MFMA.

Internal audit has conducted its reviews on the various cycles supporting reported information at the municipality

These reviews included an evaluation of the municipality's system of internal control, quality of reporting, status of records, review of the municipality's performance management system etc.

A significant number of findings revealed that there had been control deficiencies in some of the areas at the municipality as presented in the Internal Audit reports.

Concerns raised through the Audit Committee engagements have been discussed with management, and the committee has been assured that the weaknesses identified are receiving attention.

The internal audit unit reviewed the evidence supporting the information and balances reported in the financial statements, and management assured the committee the findings raised were addressed during the financial statements preparation process.

5. *Performance Management*

The Audit Committee also serves as the performance Audit Committee for Uthukela District Municipality. The legal responsibilities of the Audit Committee in this regard are set out in terms of the Local Government: Municipal Planning and Performance Management Regulations 2001 (Section 14) (Regulations).

Performance reports were generated and subjected to an audit by Internal Audit. The overall findings in this area were found to be unsatisfactory. Findings raised by Internal Audit included non-alignment of PMS information to budget or financial information, actual performance reported not adequately supported by evidence, and non-submission of performance information.

The committee noted with concern that various issues had been raised by internal audit regarding quality of performance reporting, timeliness of performance information, availability of relevant information to support actual performance reported and other issues raised in this area. These issues were previously raised with management by the PMS and Internal Audit unit, but there seemed to minimal improvement for some of the Departments.

Management has assured the committee that performance information reported for 2015/16, is supported by suitable evidence, however the PMS processes still requires vast improvement.

Performance evaluations for managers in s56 and 57 positions were conducted on 09 May 2016. However this process could not be completed as some of the managers were not available.

The performance report was also submitted to the Auditor General on 31 August 2016. The purpose of the audit is to identify reportable findings and not to express an opinion. There were a number of findings relating to performance management, mainly relating to compliance with the applicable legislation and availability of sufficient evidence to support actual performance reported.

6. *Effective Governance*

The Audit Committee fulfils an oversight role regarding the Municipality's reporting process, including the system of internal financial control. It is responsible for ensuring that the Municipality's internal audit function is independent and has the necessary resources, standing and authority within the Municipality to enable it to discharge its duties. Furthermore, the Audit Committee oversees cooperation between the internal and external auditors, and serves as a link between the Council and these functions.

The internal and external auditors have unlimited direct access to the Audit Committee, primarily through its chairperson.

7. *Compliance with Legislation and Ethics*

The Audit Committee has noted some instances of non-compliance with policies and procedures, the Municipal Finance Management Act and National Treasury Regulations.

The areas of non-compliance have been noted, mainly through the reports submitted by internal audit. In the internal audit reports, management have provided comments on the findings, recommendations and timing of the action thereof.

The committee will follow up on the progress of the management action plans and deadlines, through a review of the work conducted by the Internal Audit unit.

The Auditor General also reviewed the status of compliance with applicable legislation by the municipality for the 15/16 year. There were various findings on this area non-compliance with relevant legislation, and affected performance management, supply chain management, contract management, and expenditure management.

Recommendations

- The Council and management need to further enhance internal controls over SCM processes; as findings in this area revealed that there is need for improvement, especially as the breakdown in the processes in SCM has led to the delays in the commencement of the current year's capital projects, which has a negative effect on service delivery,

- Management should ensure that accurate, reliable and complete financial and performance information is submitted quarterly for review by the Committee. This information must be further supported by suitable evidence.
- Management should prioritise the implementation of the Internal audit and AG action plans, to ensure that matters raised by the Internal audit and the AG are addressed timeously, especially qualification matters.
- Council and management need to urgently implement the policy and monitoring controls over performance management and reporting, including holding management accountable for the non-submission of relevant information supporting actual performance.
- Management to review the current system for document management at the municipality, at the moment there are still instances where documents cannot be located. This could potentially lead to a limitation scope and could affect the audit opinion negatively.
- The cash flow management plan should be closely monitored by Council and management, and there must be clear recovery plans, with clear timelines and targets. The municipality must identify critical expenditure and prioritise this, and all other non-critical expenditure incurred must be closely monitored. A financial recovery task team must be formed, and this team will be tasked with only looking at the financial position the municipality.
- The municipality must focus on the credit management at the municipality, in order to improve the collect of outstanding balances owed by debtors. This should also form part of the credit management strategy.
- Management must review the use of consultants at the municipality against the capacity and resources available, where capacity does not exist, management must formulate a plan for the of transfer of the procured skills to the municipality, including a review of the organogram.
- Water losses must be investigated and management to formulate a plan for the minimisation of water losses at the municipality.
- Unauthorised, irregular, fruitless and wasteful expenditure must be properly investigated to determine the root cause and whether any person was liable for it.

Conclusion

The implementation and maintenance of proper systems of internal controls, risk management, the prevention of fraud and errors, safeguarding of the assets of the municipality and compliance with relevant laws and regulations, are the responsibility of Council. The role of the audit committee is to monitor the efficiency of the procedures and mechanism which Council has put in place in order to ensure that its policies and procedures are adhered to.

We can report that, taking into account the exceptions noted, recommendations made above and based on the reports submitted to us, our overall impression is that the systems and

procedures implemented by Management and Council are steadily improving, but still require an extensive review and monitoring.

On behalf of the Audit Committee



Ms Nosipho Mchunu
Chairperson