



# UMKHANYAKUDE DISTRICT MUNICIPALITY

## ANNUAL REPORT

**2016/2017**

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## FOREWORD BY THE MAYOR

On behalf of the collective leadership of vibrant men and women and the community of uMkhanyakude District, I'm honoured to present the 2016/17 Annual Report. This Annual report is a reflection of how the Municipality performed during 2016/2017 on all areas of responsibility the Municipality is mandated to deliver on.

The report is published in terms of the requirements of the Municipal Finance Management Act No. 56 of 2003 and Municipal Systems Act of 2000 as amended which requires municipalities to report on all aspects of performance, providing a true, honest and accurate account of the goals set by Council and our success.


This Annual Report aims to enhance governance and promote accountability. It forms part of a cycle of ongoing planning, monitoring and evaluation that begins with the formulation and annual review of the Integrated Development Plan. This in turn helps the District to make its budget determinations and set targets for delivery.

The Municipality is still under administration in terms of Section 139 (1) (b) of the South African Constitution 108 of 1996. A lot of work has been done in addressing issues that led to the Municipality to be placed under administration. It is envisaged that the Municipality will be able to function without this intervention before the end of the next coming financial year.

Poor Auditor General's opinion on financial statements is one focal point that needs urgent attention. The administrative wing of the Municipality worked tirelessly to address issues raised in the previous financial years. Some improvement is expected in financial planning and management.

Drought that has been persistent over the past few years has resulted in most parts of the District seriously struggling in having reliable sources of water. Much work has been done in developing bulk water service plants that would cover a large majority of our communities. As a result, most capital investment was allocated to address this priority which during 2016/2017 did not benefit intended communities. In the next coming financial year communities will benefit immensely from the bulk infrastructure that has been constructed. This will also provide job opportunities especially for the youth in the District.

The overall performance of the Municipality was unsatisfactory during 2016/2017 financial year. The leadership together with the administration is committed to turning this situation around. I therefore present this Annual Report for 2016/2017.



Cllr T. S. Mkhombo  
His Worship the Mayor

## MUNICIPAL MANAGER'S OVERVIEW

This Annual Report marks the last financial year in the third term of Local Government. During 2016/2017 there was a concerted effort between the leadership of the District and administration in ensuring that a variety of challenges faced by people of Umkhanyakude are resolved swiftly and basic service delivery is treated as a priority.

The poor Auditor General's opinion that the Municipality received during the previous financial year is an indication that there is still work to be done in order to ensure that the administrative processes of the Municipality are brought back to normality. Through Back to Basics programme, Audit Action Plan and the Recovery Plan the Municipality there has been some slight improvement in administrative processes of the Municipality.

Due to budget constraints, the Municipality has been struggling to provide programmes that would adequately address socio economic development needs of the community. Reliance has been mainly on the Development Agency as well as sector departments. The relations between the District Municipality and the Development Agency hit an all-time low during 2016/2017 financial year. Plans are in place to ensure that the District Municipality plays a much better oversight in the affairs of its Development Agency. During the 4<sup>th</sup> term of Local Government, the Municipality will seek to provide its own budget and still continue to work in partnership with sector departments and private sector in order to address socio economic development priorities. The Expanded Public works Programme (EPWP) assisted the Municipality to reach out to communities by providing employment to youth and other needy segments of the community. The National Government has been consistently providing funding to enable the Municipality to address various community needs which include skills development and unemployment.

Vacancies in critical positions have been another challenge that the Municipality has been facing during the 2016/2017 financial year. The Department of Cooperative Governance and Traditional Affairs (COGTA) has been providing support by seconding warm bodies to address filling of some critical posts. Most departments were being led by acting incumbents which is risky to the Municipality in terms of business continuity and service delivery initiatives. As the Municipality has finalised its Human Development Strategy, human resource management will be guided by a well-structured framework.

Administrative support from the provincial government COGTA is still continuing as the Municipality placed under Section 139 (1) (b) of the Constitution in 2015/2016 due to poor administration. There has been slight improvement in addressing challenges faced by the Municipality in areas such as Institutional Transformation and Development, Financial Management and Basic Service Delivery. It is envisaged that by the end of the next coming financial year, the Municipality should have resolved all bottlenecks and running smoothly making it unnecessary to be managed under Section 139 (1) (b).

The Municipality has started working on a well-structured plan of implementing basic services for all communities in the District. The Water Services Development Plan (WSDP) is in the process of being developed and it will go a long way in guiding the implementation of basic services. Quality infrastructure will be ensured at all times so as to minimise huge expenditure on operations and maintenance.

Overall the Municipality still needs to improve on a number of areas as it did not do well in terms of meeting its set targets for 2016/2017 financial year. In order for the Municipality to get out of this situation some drastic measures would have to be taken by ensuring that issues of performance management are put right at the top of the agenda in each and every formal meeting held by various Council committees including those that are related to the IGR.



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**Mr S. E Bukhosini**  
**Municipal Manager**

## MUNICIPAL POWERS AND FUNCTIONS

Municipal Powers and Functions reflect activities that municipalities are obliged to perform. Partly it all depends on the category of the municipality. In terms of the Municipal Structures Act Umkhanyakude District Municipality falls under Category C.

The powers and functions of the UMkhanyakude District Municipality, tabled in terms of sections 83 and 84 of the Municipal Structures Act, are as follows:

- 1) Integrated Development Planning for the District Municipality as a whole, including a framework for integrated development plans for the local municipalities within the area of the District Municipality, taking into account the integrated developments plans on those local municipalities,
- 2) Bulk supply of water that affects a significant proportion of municipalities in the district
- 3) Bulk supply of electricity that affects a significant proportion of municipalities in the district.
- 4) Municipal Health Services serving the area of the District Municipality as a whole
- 5) Fire Fighting services serving the area of the District Municipality as a whole

The following functions are shared by both the district and its family of municipalities:

- 1) Promotion of local Tourism;
- 2) Fire-fighting services;
- 3) Municipal airports;
- 4) Municipal planning;
- 5) Municipal public transport;
- 6) Cemeteries, funeral parlours and crematoria;
- 7) Refuse removals, refuse dumps and solid waste removals;
- 8) The establishment conducts and control of fresh produce markets and abattoirs; and
- 9) Municipal roads which form integral part of a road transport system for the area of the District Municipality as a whole.

## SUMMARY OF ANNUAL REPORT LEGISLATIVE FRAMEWORK

### Background

In terms of section 121(1) of the MFMA, every municipality and every municipality must for each financial year prepare an annual report. In terms of section 127(2) of the MFMA, the Mayor of the Municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality and of any municipal entity under the Municipality's sole or shared control.

The following legislative requirements have been complied with:

### MFMA Requirements

#### **The Annual Financial Statement of the Municipality {section 121(3)(a)}**

See Annexure A

#### **The Auditor-General's Report {section 121(3)(b)}**

See Annexure B

#### **The Annual Performance Report {section 121(3)(c) and section 121(3) (d)}**

See Appendix 1

### Disclosures:-

#### **Section 123 (1) (a) (ii) Allocations received from a municipal entity or another municipality**

The municipality has established a Development Agency called uMhlosinga Development Agency (UMDA). It is wholly owned by uMkhanyakude District Municipality. The Annual allocations are made to uMhlosinga Development Agency.

#### **Section 123 (1) (b) (i) Allocations made to a municipal entity or another municipality**

The allocation made the municipality to municipal entity (UMhlosinga Development Agent)

#### **Section 123 (1) (b) (ii) Allocations made to any other organ of state**

None

#### **Section 123 (1) (d) (i) The municipality has complied with allocation made to it by National Government**

YES

#### **Section 123 (1) (d) (ii) The municipality has complied with allocations made to it other than by National organs of state**

YES

#### **Section 123 (1) (e) Reasons for non-compliance with grant conditions referred to above**



N/A

**Section 123 (1) (f) Delays or withholding of funds ..... DoRA**

NONE

**Section 123 (1) (a) Reasons for delay or withholding of funds ... DoRA**

NONE

**Section 124 (1) (a) Salaries, allowances and benefits of political office-bearers and councillors of the municipality (financial and in-kind)**

*See page 18*

***In-kind benefits***

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. The Mayor and the Speaker are provided with offices and secretarial support at the cost of the Council.

All Councillors are re-imbursed for kilometres travelled on official duties with the exception of the Mayor.

The Deputy Mayor and other Executive Committee Members each have an office and share secretarial support at the cost of the Council.

**Section 124 (1) (b) Statement by the accounting officer that salaries, allowances and benefits are in accordance with the framework in s 219 of the Constitution**

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

**Section 124 (1) (c) Arrears owed by individual councillors to the municipality or its municipal entity for rates and services which were at any time during the year outstanding for more than 90 days.**

None

**Section 124 (1) (c) Salaries, allowances and benefits of the municipal manager, CFO and every senior manager**  
*See page 20*

**Section 125 (1) (a) List of all municipal entities under the shared or sole control of the municipality**  
***UMhlosinga Development Agency***

Section 125 (1) (b) Total amount of contributions to organised local government for the year and any outstanding amounts at year end [if the amount is "nil" indicate so]

Nil

## **Municipal Systems Act Requirements**

### **MSA s45 – Audited performance measures**

*See Appendix 1*

**MSA s46 (1) (a) - (i) the municipality's, and any service provider's, performance during that financial year, also in comparison with targets of and with performance in the previous financial year;**

**MSA s46 (1) (a) – (ii) Current year's performance and targets as well as the prior year**

*See page 70*

**MSA s46 (1) (a) – (iii) Performance report measures that were taken or are to be taken to improve performance**

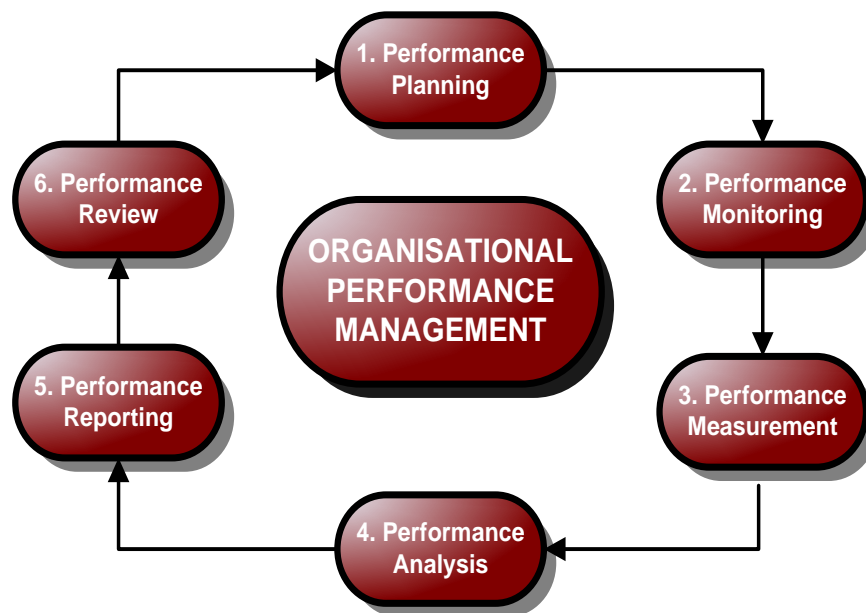
*See page Appendix 1*

**MSA s46 (1) (a) - Service delivery priorities and performance targets set for the next financial year**

*See page 60*

## PERFORMANCE MANAGEMENT PROCESSES

The annual process of managing performance at organizational level in the Municipality involves the steps as set out in the diagram below:



### Performance Planning

The performance of the Municipality is managed in terms of its IDP and the process of compiling an IDP and the annual review thereof therefore constitutes the process of planning for performance.

### Performance monitoring

Performance monitoring is an ongoing process by which a manager accountable for a specific indicator as set out in the organizational scorecard (and a service delivery target contained in a SDBIP) continuously monitors current performance against targets set. The aim of the monitoring process is to take appropriate and immediate interim (or preliminary) action where the indication is that a target is not going to be met by the time that the formal process of performance measurement, analysis, reporting and review is due.

### Performance measurement

Performance measurement refers to the formal process of collecting and capturing performance data to enable reporting to take place for each key performance indicator and against the target set for such indicator. When performance measurement is due, managers are expected to collect and collate the necessary performance data or information and capture the result against the target for the period concerned on the organizational scorecard and relevant SDBIP scorecard and report the result accordingly.

## Performance analysis

Performance analysis involves the process of making sense of measurements. It requires interpretation of the measurements as conducted in terms of the previous step to determine whether targets have been met and exceeded and to project whether future targets will be met or not. Where targets have not been met, performance analysis requires that the reasons therefore should be examined and corrective action be taken. Where targets have been met or exceeded, the key factors that resulted in such success should be documented and shared so as to ensure organizational learning.

## Performance reporting and review

This section is further divided into three sections dealing with the requirements for in-year versus annual reporting and reviews respectively and lastly a summary is provided of the various reporting requirements.

### In-year performance reporting and review

This step involves submission of the scorecards to the Executive Committee for consideration and review of the performance of the Municipality as a whole. The first such report is a major milestone in the implementation of any PMS and it marks the beginning of what should become a regular event namely using the performance report as a tool to review the Municipality's performance and to make important political and management decisions on how to improve.

The organizational and SDBIP scorecards are submitted to the Executive Committee for consideration and review on a quarterly, half yearly basis.

### Annual performance reporting and review

On an annual basis, a comprehensive report on the performance of the Municipality is compiled in terms of the MFMA as well as the Municipal Systems Act. After the adoption of the annual report by council it is then subjected to an oversight process which also involve public participation.

### Summary of various performance reporting requirements

The following table, derived from both the legislative framework for performance management and this PMS Framework, summarizes for ease of reference and understanding the various performance reporting deadlines as it applies to the Municipality:

Report	Frequency	Submitted for consideration and/or review to	Remarks
1. SDBIPs	Quarterly	Executive Committee	See MFMA Circular 13 of National Treasury for further information
2. Monthly budget statements	Monthly	Mayor (in consultation with Exco)	See sections 71 and 54 of the MFMA
3. Organisational Scorecard	Quarterly	Executive Committee	This PMS Framework (see section 7.5.1 above)
4. SDBIP mid-year budget and performance assessment	Annually during January of each year	Mayor (in consultation with Exco)	See sections 72 and 54 of the MFMA
5. Performance report	Annually	Council	See section 46 of the Municipal Systems Act as amended. Said report to form part of the annual report (see 8 below)
6. Annual report	Annually	Council	See section 121 of the MFMA

The Municipality uses the Key Performance model. In the said model, all indicators are grouped together under the national key performance areas as per the Systems Act and the local key performance areas as per the Umkhanyakude District Municipality's IDP. The said Model therefore enables the Municipality to assess its performance based on the national and its own local key performance areas.

The following are the six Key Performance Areas (KPA's) that are being used in the preferred performance management model:

- Institutional Transformation and Development
- Service Delivery and Infrastructure Development;
- Local Economic Development;
- Good Governance and Public Participation; and
- Municipal Financial Viability and Management
- Cross Cutting Interventions

## EXECUTIVE SUMMARY

The process of compiling an annual report commenced in July 2017 when the District Municipality submitted Annual Financial Statements to Auditor General which was in terms of S 126(1) (a) of the MFMA. The preparation of the 2016/2017 annual report is informed by:

**Chapter 1:** This section gives an overview of uMkhanyakude District Municipality in terms of its spatial location, competitive advantages, and demographics.

**Chapter 2:** This chapter reflects on Municipal Governance.

**Chapter 3:** This chapter reflects on Service Delivery Performance in line with the IDP

**Chapter 4:** This chapter reflects on Organisational Development Performance.

**Chapter 5:** This chapter covers Financial Performance (AFS and liquidity ratios).

### Other Annexures:

- Annexure A: Audited Consolidated Annual Financial Statements
- Annexure B: Auditor General's Report
- Annexure C: reflects on the Audit Action Plan
- Annexure D: Audit Committee Report
- Annexure E: Annual Report for uMhlosinga Development Agency

The Annual Report is a reflection of Umkhanyakude District Municipality's performance in terms of:

- Municipal Transformation and Institutional Development
- Service Delivery and Infrastructure Investment
- Local Economic Development
- Municipal Financial Viability and Management
- Good Governance and Public Participation
- Cross Cutting Interventions

Most parts of this Annual Report quantified performance in all Key Performance Areas of the Municipality. This is further supported by Annual Financial Statements which have been audited and the findings of the audit are also contained in the report.

# CHAPTER 1: OVERVIEW OF UMKHANYAKUDE DISTRICT MUNICIPALITY

## District Overview

UMkhanyakude District Municipality is located in the far Northern region of KwaZulu-Natal Province in South Africa (32,014489; -27,622242). At 12 818 km<sup>2</sup> and with a population totalling 689,090, the District is the 2nd largest District in KwaZulu-Natal, in terms of size, behind its neighbouring District, Zululand District Municipality. UMkhanyakude District also has the World Heritage Site known as Isimangaliso Wetland Park which encompasses the entire coastline of more than 200 km. The Map below indicates the boundaries of the 5 local municipalities within the UMkhanyakude District and surrounding neighbourhoods. The District Municipality consists of the following municipalities:

### Local Municipalities within the District

- UMhlabuyalingana Municipality (KZ 271)
- Jozini Municipality (KZ 272)
- The Big 5 Hlabisa Municipality (KZ 276)
- Mtubatuba Municipality (KZ 275)

The District Municipality is located in Mkhuze and has:

- The Republic of Mozambique to the North
- The Indian Ocean to the East
- King Cetshwayo DM to the South (DC28)
- Zululand DM to the West (DC26)
- the Kingdom of Swaziland to the North- West



## 1.1 Brief Demographic Profile for uMkhanyakude Municipalities

### The Population

Table 1: Population Figures - STATSSA 2016 Community Survey

	UMhlabuyalingana	Jozini	Big 5 Hlabisa	Mtubatuba	Umkhanyakude
2011	156,736	186,502	107,183	175,425	625,846
2016	172,077	198,215	116,622	202,176	689,090
% Growth	8,9%	5,9%	8,7%	13,2%	9,2%

Table 2: Population by Group Type for Umkhanyakude District - STATSSA 2016 Community Survey

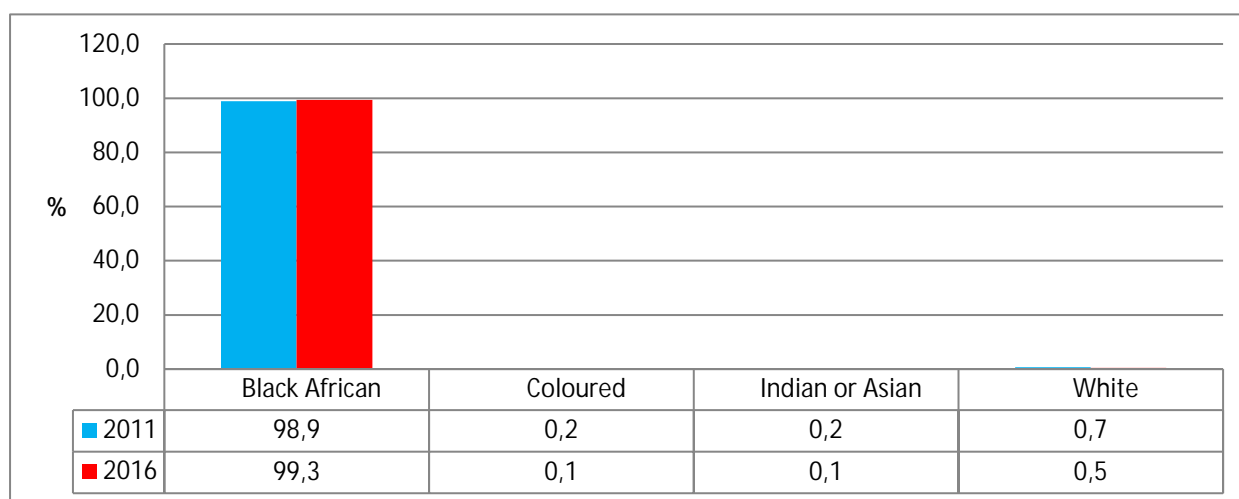


Table 3: Household Figures - STATSSA 2016 Community Survey

Municipality	Household Size	No of Wards	Traditional Councils
Umhlabuyalingana	39 614	18	4
Jozini	44 584	20	7
Mtubatuba	25 255	13	6
Big 5 Hlabisa	41 792	20	1
UKDM	151 245	71	18



## CHAPTER 2: MUNICIPAL GOVERNANCE

The institutional structure of the municipality is divided into two levels, the Political and Administrative structures. The Administrative structure is accountable to the Political structure. The administration of the Municipality is structured according to the powers and functions allocated to municipalities as per Chapter 3 of the Municipal Systems Act and Regulations 32 of 2000. The Municipality is guided by the policies and procedures which are developed from National and Provincial guidelines and adopted by Council.

### 2.1 Political Governance

The Council comprises 31 seats allocated according to proportional representation as per Schedule 2 (7) of the Local Government Municipal Structures Act and Regulations 117 of 1998 and representative of all Local Municipalities.

The Council is made up of the following political parties: African National Congress (16 Councilors) INkatha Freedom Party (14 Councilors) Economic Freedom Fighters (1 Councilor).

The principal structure of the municipality is Council which is chaired by the Speaker of Council, Councilor M. Msane. The Executive Committee (EXCO) which is chaired by the Mayor of Council, Cllr. S. Mkhombo is the delegated political structure that deals with the day to day running of the Municipality and further reports its affairs to Council for noting and consideration depending on the matter in question.

To ensure effectiveness of oversight; Council is further divided into various committees which are established in terms of Sections 79 and 80 of the Local Government: Municipal Structures Act (Act no 117 of 1998). These committees include:

No.	Committee	Relevant Section of the MSA	Chairperson
1.	Executive Committee	Section 80	Cllr S.Mkhombo
2.	Finance Portfolio Committee	Section 80	Cllr S.Mkhombo
3.	Corporate Governance Portfolio Committee	Section 80	Cllr F.C.Hlabisa
4.	Community Services & Planning and Economic Development	Section 80	Cllr M.Ngcobo
5.	Technical Services Portfolio Committee	Section 80	Cllr S.Mkhombo
6.	Municipal Public Accounts Committee	Section 79	Cllr S.W.Mzinyane

## Councillors and Traditional Leaders Serving in The District Municipality

No.	Initials and Surname	Position
1.	Cllr T.S Mkhombo	Mayor
2.	Cllr F.C Hlabisa	Deputy Mayor
3.	Cllr M.S Msane	Speaker
4.	Cllr M.S Ngcobo	ExCo Member
5.	Cllr G.P Moodley	ExCo Member
6.	Cllr M.C Zungu	ExCo Member
7.	Cllr B.S Mathenjwa	Council Member
8.	Cllr N.R Mthethwa	Council Member
9.	Cllr S.W Mzinyane	Council Member
10.	Cllr P.B Madlopha	Council Member
11.	Cllr V.M Gumede	Council Member
12.	Cllr K.S Gumede	Council Member
13.	Cllr M.B Sithole	Council Member
14.	Cllr S.J Khoza	Council Member
15.	Cllr M.A Gina	Council Member
16.	Cllr N.E Zuma	Council Member
17.	Cllr K.N Mpontshane	Council Member
18.	Cllr A.V Mabika	Council Member
19.	Cllr V.F Hlabisa	Council Member
20.	Cllr S.F Mdaka	Council Member
21.	Cllr C.T Khumalo	Council Member
22.	Cllr N.S Mthethwa	Council Member
23.	Cllr S.P Mthethwa	Council Member
24.	Cllr Z. Mhlongo	Council Member
25.	Cllr J.G Ngubane	Council Member
26.	Cllr M.J Mthembu	Council Member
27.	Cllr R.H Gumede	Council Member
28.	Cllr D.P Mabika	Council Member
29.	Cllr N.R Zulu	Council Member
30.	Cllr V.E Gumede	Council Member
31.	Cllr S.R Myeni	Council Member
32.	Inkosi M.I Tembe	Council Member
33.	Inkosi S.K Ngwane	Council Member
34.	Inkosi T.M Gumede	Council Member
35.	Inkosi Z.T Gumede	Council Member
36.	Inkosi T.H Nxumalo	Council Member

### REMUNERATION OF COUNCILLORS

DESIGNATION	AMOUNT
Mayor	R 591 477,92
Deputy Mayor	R 551 509,71
Speaker	R 523 081,14
Executive Committee	R 1 455 884,01
Councillors	R 2 808 781,35
<b>TOTAL</b>	<b>R5 930 734,13</b>

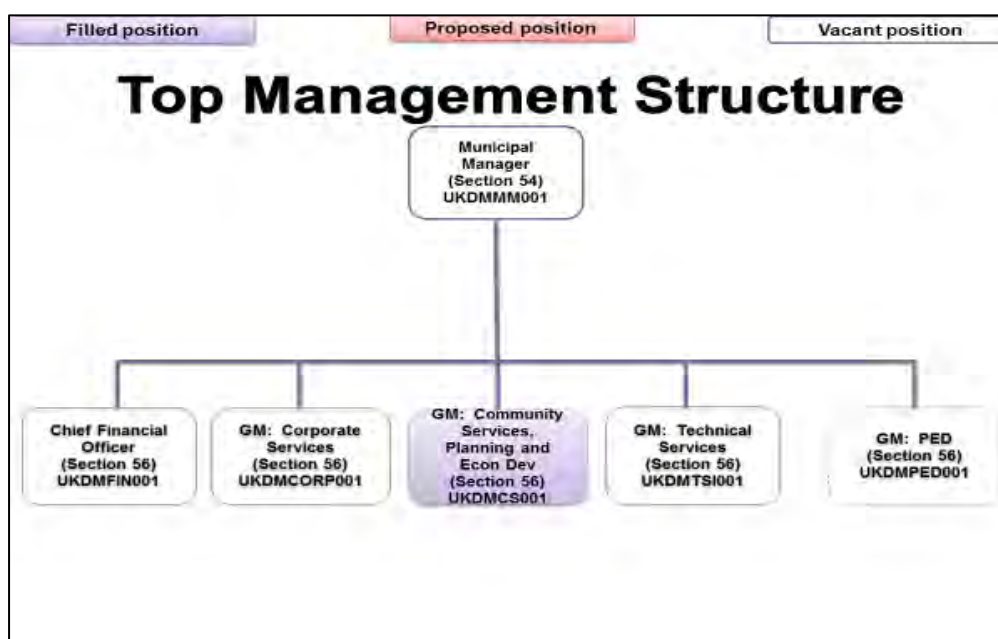
## 2.2 Administrative Governance

### Organisational Structure

In accordance with municipal legislation, Umkhanyakude District Municipality has developed an organizational structure which has been adopted by Council. The managerial structure has been developed in a manner that would enable the Municipality to deliver on its priorities and objectives, as set out in the Municipality's Integrated Development Plan. Umkhanyakude District Municipality consists of five (5) departments, namely:

No.	Position	Appointment Status
1.	Municipal Manager	Vacant (Acting incumbent)
2.	GM: Corporate Services	Vacant (Acting incumbent)
3.	Chief Financial Officer	Vacant (Acting incumbent)
4.	GM: Community Services, PED	Filled
5.	GM: Technical Services	Vacant (Acting incumbent)

### Top Management Structure



- The Municipal Manager's position was vacant and occupied by an incumbent in an acting capacity. The process of appointing the municipal manager was concluded in August 2017
- The GM for Technical Services' position was vacant and occupied by an incumbent in an acting capacity
- The CFO's position was vacant and occupied by an incumbent in an acting capacity
- The GM for Corporate Services' position was vacant and occupied by an incumbent in an acting capacity
- The Department for Planning and Economic Department was combined with Community Services

**Section 124 (1) (C): Salaries, Allowances and Benefits of the Municipal Manager, Chief Financial Officer and other Senior Managers**

<b>REMUNERATION OF THE GENERAL MANAGER CORPORATE SERVICES</b>	
Annual Remuneration	R 851 960,70
Contributions to UIF, Pension and Medical Aid	R 251 050,20
Travel, motor car, accommodation, subsistence and other allowances	R 196 272,31
Acting allowance	R 12 786,47
Back pay	R 17 717,52
<b>TOTAL</b>	<b>R1 329 787,20</b>

<b>REMUNERATION OF THE CHIEF FINANCIAL OFFICER</b>	
Annual Remuneration	R851 960.70
Contributions to UIF, Pension and Medical Aid	R 152 788.68
Travel, motor car, accommodation, subsistence and other allowances	R 92 986.35
Acting Allowance	None
Back pay	None
<b>TOTAL</b>	<b>R1 097 735,73</b>

<b>REMUNERATION OF THE GENERAL MANAGER TECHNICAL</b>	
Annual Remuneration	R 860 566.00
Contributions to UIF, Pension and Medical Aid	R 324 660.54
Travel, motor car, accommodation, subsistence and other allowances	R 343 858.22
Acting Allowance	None
Back pay	None
<b>TOTAL</b>	<b>R1 529 084,76</b>

<b>REMUNERATION OF THE MUNICIPAL MANAGER</b>	
Annual Remuneration	R 1 062 042.96
Contributions to UIF, Pension and Medical Aid	R 265 203.58
Travel, motor car, accommodation, subsistence and other allowances	R 257 309.05
Acting Allowance	None
Back pay	None
<b>TOTAL</b>	<b>R 1 584 555,59</b>

<b>REMUNERATION OF THE GENERAL MANAGER COMMUNITY</b>	
Annual Remuneration	R 771 549.60
Contributions to UIF, Pension and Medical Aid	R 459 715.65
Travel, motor car, accommodation, subsistence and other allowances	R 230 672.76
Acting Allowance	None
Back pay	R 2 203.75
<b>TOTAL</b>	<b>R1 464 141,76</b>

**The Office of the Municipal Manager is responsible for the following functions:**

- Overall Administrative Management & Oversight
- Municipal Support functions
- Communications, Marketing and Branding
- Internal Audit & Risk Management
- Legal Services
- Research & Policy Development
- Intergovernmental Relations (IGR)
- Batho Pele Implementation & Monitoring

**The Corporate Services Directorate is responsible for the following functions:**

- Information Communication Technology
- Support Services (Administration, Auxiliary Services, Council Support, Facilities Management;
- Records and Information Management and Knowledge Management)
- Human Resources Management (Organizational Development, Recruitment and Selection,
- Employee Wellness and Occupational Safety, Career Development, Performance Management,
- Human Resources Development, Labour Relations and Batho Pele)

**The Financial Services Directorate is responsible for the following functions:**

- Budget and Treasury Management
- Supply Chain Management
- Revenue Management
- Expenditure Management
- Financial Control and Cash Management
- Accounting and Reporting

**The Technical Services Directorate is responsible for the following functions:**

- Municipal Infrastructure Planning, Funding, Maintenance and Development Management
- Electricity Distribution Management
- Water Distribution Management
- Sanitation Distribution Management
- Water Quality Monitoring
- Project Management Unit

**The Community Services Planning & Economic Development Directorate is responsible for the following functions:**

- Fire Services
- Disaster Management
- Special Programmes
  - Youth & Sports Development & Support Programmes
  - People with Disabilities Development & Support Programmes
  - Elderly People Development & Support Programmes
  - Women Development & Support Programmes
  - HIV/AIDS Support Programmes
- Sector Development
- Environmental Health Planning & Management
- Protection Services
- Social Development
- Spatial Planning
- Land Use Management & Administration
- Geographical Information Systems (GIS)
- Environmental Planning & Management
- District-Wide Growth & Development Planning (DGDP)
- Secretariat to the District Development & Planning Commission (DDPC)
- Human Settlement Planning & Coordination
- Integrated Development Planning (IDP)
- Performance Management Systems (PMS)
- Local Economic Development (LED)
- Tourism Development & Marketing
- uMhloosinga Development Agency (UMDA)

## 2.3 Corporate Governance

### Website Functionality

- The Municipal Website is fully functional
- The Website is hosted by TTech Technologies
- The Email services have been added on the Municipal website, meaning that the municipal employees are able to access their emails through the Municipal website and is secured
- The Website is updated on a regular basis by IT staff
- There is a search engine added on the Website and quick links
- There is an intranet linked with the municipal website where Councillors are getting their Council agendas.

The Municipal website has 95% up time.

## CHAPTER 3: PERFORMANCE HIGHLIGHTS

### 3.1 Corporate Services

- Review of the organizational structure as part of the intervention in terms of Section 139 (1) (b);
- Conducting Health and Safety Risk Assessments.
- Development and adoption of HRD Strategy
- Development and adoption of Human Resources policies
- Installed a new backup server, which backs up all servers on the network and generates automated backup reports.
- The Municipality is now able to do backup and restore testing with Iron tree.
- Procured & installed a new Pastel server which is mSCOA compliant.
- Implemented a Firewall security to improve information security in the municipality and as well as Disaster Management Centre. This firewall is able to provide reports with access violations as recommended by AG.

Council and Standing Committee meetings held during 2016/2017 financial year:

Council	Executive Committee	Corporate Governance Portfolio Committee	Community and PED Portfolio Committee	Finance Portfolio Committee	Infrastructure Portfolio Committee	MPAC	Local Labour Forum
12	12	05	05	05	06	07	06

### Organizational Development Performance

#### Municipal Performance Overview

Employee Totals (as per the approved organogram)	Board and General (11) Corporate Services (39) Community Services (34) Financial Services (69) Technical Services (142) PED (11) Casual Workers (13) Contract/Pump Attendants (47)
<b>Total</b>	<b>366 Employees</b>
Turnover	Deaths (02) Resignations (08) Retirements (07)



	Expiry of Contracts (13) Dismissals (2)
<b>Total</b>	<b>22 Employees</b>
Vacancies (as per the approved organogram)	Board and General (11) Corporate Services (16) Community Services (19) Financial Services (36) Technical Services (38) PED (13)
<b>Total</b>	<b>133 Vacancies</b>

## Managing Employee Workforce

### Policies

UMkhanyakude District Municipality has developed a number of policies that deal with the management of human resources and administration. The following policies were adopted by Council on 31 May 2017:

### Human Resources Management Policies

- Hours of Work Policy
- Overtime Policy
- Benefits and Allowances Policy
- Acting Allowance Policy
- Cellular Phones Policy
- Transport Allowance Policy
- Remuneration Policy
- Long Service Benefit Policy
- Subsistence and Traveling Policy
- Leave of Absence Policy
- Health and Safety Policy
- Employee Assistance Programme Policy
- HIV and AIDS Policy
- Training Policy
- Internship Policy
- Employment Relations Policy
- Incapacity Code and Procedures
- Sexual Harassment Policy
- Racial and Ethnic Harassment Policy
- Employee Study Assistance Policy
- Termination of Employment Policy
- Recruitment and Selection Policy
- Staff Retention Policy
- Employment Equity Policy

- Human Resources Management Policy
- Records Management Policy
- Information Technology Security Policy
- Use of Internet and Email
- Telephone - Private Calls Policy
- Municipal Housing Scheme and Assistance Policy
- Motor Vehicle Usage Policy

#### **Administration Policies**

- IT Security Policy (Firewall Policy under IT Security Policy)
- Backup Policy
- IT Change Management Policy
- IT Disaster Recovery Plan.
- IT Patch Management Policy
- Records Management Policy

#### **Suspensions**

<b>Employee Name</b>	<b>Designation</b>	<b>Suspension Date</b>
Mr. T. M. Mabika	Deputy Chief Financial Officer	08 May 2016

## 2016/2017 Annual Training Report

**Summary:** (21) Councillors

(08) Staff members

Employee Initials & Surname	Position	Department	Training attended	Service Provider
04 Members of the Local Labour Forum	Officials	Board & General	LLF Training (Funded by SALGA)	South African Local Government Bargaining Council (SALGBC)
03 Officials	HR Officials	Corporate	PMS & Recruitment and Selection (Funded by SALGA)	SALGA
01 Official	SDF	Corporate	WSP development	LGSETA
12 Councillors	Councillors	Board & General	Councilor Induction (Funded by Cogta)	Cogta
05 Councillors	Councillors	Board & General	Sector Based Orientation (Funded by Cogta)	Cogta
04 Councillors	Councillors	Board & General	MPAC workshop on Annual Financial Staements	SALGA

### Occupational Injuries report 2016/2017

No	Employee Name	Occupation	Brief Description	Date	Submission to DOL
1.	Ms.M.B.Nhlenyama	Cashier	An employee was attacked at gunpoint by three boys while selling electricity	2016/09/14	Reported to SAPS and Department of Labour
2.	Ms.M.B. Nhlenyama Ms.C.S.Magubane Ms.S.P.Mkhwanazi Ms.T.G.Sibiya	Cashiers	Employees were attacked at gunpoint by men who demanded cash.	2016/05/15	Reported to SAPS and Department of Labour
3.	Ms. I.S.P.Maklina	Plant Operator	An employee was attacked by a man carrying a knife demanding her to give him her gun.	2017/05/15	Reported to SAPS and Department of Labour

## Challenges and Proposed Interventions for Corporate Services Department

Key Issue	Challenges	Proposed Interventions
Organizational Structure	<ul style="list-style-type: none"> <li>• Bloated structure</li> <li>• Staff misplacement</li> <li>• Lack of requisite skills especially on critical positions</li> <li>• Van der Merwe Salary System</li> </ul>	<ul style="list-style-type: none"> <li>• Revision of the organogram</li> <li>• Staff placement</li> <li>• Development of job descriptions</li> <li>• TASK Job Evaluation</li> <li>• Implementation of continuous management reform</li> </ul>
Recruitment and Staff Appointment	<ul style="list-style-type: none"> <li>• High staff turnover as a result of lack of recreational facilities and safe accommodation</li> <li>• Moratorium on the filling of positions</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the Municipal Retention Strategy</li> <li>• Optimal use of available resources</li> </ul>
Council Structures	<ul style="list-style-type: none"> <li>• Timeous implementation of ExCo and Council Resolutions</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of the Resolutions Register.</li> <li>• Consequence management for non-implementation of resolutions</li> </ul>
	<ul style="list-style-type: none"> <li>• Dysfunctional Council Committees</li> </ul>	<ul style="list-style-type: none"> <li>• Adherence to the adopted schedule of Council of meetings</li> <li>• Gazetting of Standing Rules and Orders and implementation thereof (sanctions)</li> </ul>
Poor records management	<ul style="list-style-type: none"> <li>• Appraisal of municipal records and disposal thereof</li> <li>• Outdated Records Management Policies and Procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Review of Records Management Policy, Procedure Manual and File Plan</li> <li>• Forward a request to Provincial Archives for records appraisal</li> </ul>
Policies and Procedures	<ul style="list-style-type: none"> <li>• Policies were last reviewed and adopted in 2013</li> <li>• Adherence to municipal policies and procedures is a major challenge</li> </ul>	<ul style="list-style-type: none"> <li>• Work shopping all revised policies to ManCo, LLF, Staff and Council</li> </ul>
Labour Relations	<ul style="list-style-type: none"> <li>• Adherence to timelines outlined in the Disciplinary Procedure and Code Collective Agreement</li> <li>• Lack of internal capacity to serve as either Prosecutors or Presiding Officers</li> <li>• Lot of disputes referred to SALGBC</li> </ul>	<ul style="list-style-type: none"> <li>• The Municipality in collaboration with SALGA to train middle managers as Prosecutors and Presiding Officers</li> <li>• Addressing labour disputes internally before they are referred to the SALGBC</li> </ul>

Key Issue	Challenges	Proposed Interventions
Facilities Management	<ul style="list-style-type: none"> <li>• No ablution facilities and office space for municipal satellite areas</li> </ul>	<ul style="list-style-type: none"> <li>• Making use of available park homes (subject to cost-benefit analysis). The number of employees will determine municipal priorities</li> </ul>
Fleet Management	<ul style="list-style-type: none"> <li>• Poor Internal Controls which exposes municipal fleet to abuse and vandalism</li> <li>• Safety of municipal fleet</li> <li>• Adherence to Fleet Management Policy</li> <li>• No service provider providing fuel cards and fleet management services</li> </ul>	<ul style="list-style-type: none"> <li>• Control of municipal fleet to be strengthened</li> <li>• Installation of vehicle tracking devices</li> <li>• Development of a Policy for the utilization of fleet allocated to POBs</li> <li>• Appointment of a service provider to provide fleet management services</li> <li>• Capping fuel cards to a certain amount per month and submission of monthly fuel expenditure reports</li> </ul>
Employment Relations	<ul style="list-style-type: none"> <li>• The relationship between management and labour need to be improved</li> <li>• Unresolved labour disputes</li> </ul>	<ul style="list-style-type: none"> <li>• Clear definition of roles and responsibilities for the Local Labour Forum;</li> <li>• Administrative accountability of the Unions (MM or HR)</li> <li>• Sound labour and management / HR relations</li> </ul>
Productivity and Staff Morale	<ul style="list-style-type: none"> <li>• Productivity of employees is very low which is characterized by high rate of absenteeism and lack of discipline</li> </ul>	<ul style="list-style-type: none"> <li>• Setting the tone at the top (All)</li> <li>• Leading by example (All)</li> <li>• Taking charge of employee management (All)</li> <li>• Development of systems and procedures (HR)</li> <li>• Consequence Management (All)</li> </ul>
IT Management	<ul style="list-style-type: none"> <li>• Inadequate Environmental controls in case of Disaster.</li> <li>• Back Up and Recovery Systems</li> <li>• Segregation of duties which may lead to fraud (AG Finding)</li> <li>• Inadequate Change Management Procedure</li> </ul>	<ul style="list-style-type: none"> <li>• Provide budget to implement Fire detection &amp; Suppression system, fire matt, fire door etc.</li> <li>• Procure Backup server for testing of all system updates &amp; releases before deploying to the live environment.</li> <li>• Increased and appropriate utilization of ICT</li> <li>• Provision of personnel to the IT Unit</li> </ul>
Skills Development	<ul style="list-style-type: none"> <li>• Shortage of requisite skills to implement the municipal strategic plan (delivering services)</li> </ul>	<ul style="list-style-type: none"> <li>• Empowering employees through focused and continuous professional / skills development</li> <li>• Performance Management</li> </ul>

### 3.2 Technical Services & Infrastructure Services

The STATSSA (2016 Community Survey) indicated that out of **151 245** households, **31,57%** still had no access to potable water and **43,42%** still had no access to basic sanitation services.

#### Capital Projects

The following water and sanitation projects were implemented by uMkhanyakude District Municipality for 2016/2017:

DESCRIPTION	2016/17	2017/18	2018/19
Disaster Management centre	R -	R -	R -
Hlabisa Mandlakazi	R 15 000 000,00	R 11 579 817,78	R -
Hluhluwe Water Phase 1	R 2 000 000,00	R 4 946 784,00	R -
<b>Ingwavuma vip Sanitation</b>	R 13 000 000,00	R 15 000 000,00	R 20 000 000,00
Jozini Regional CWSS	R 15 000 000,00	R 15 000 000,00	R 20 000 000,00
Kwajobe Community Water Scheme(Ntshongwe Malobeni)	R 13 000 000,00	R 15 000 000,00	R 15 000 000,00
Manguzi Star of the Sea Water Scheme	R 8 000 000,00	R 10 000 000,00	R 15 000 000,00
Mkuze water Treatment upgrade & Refurbishment	R 14 063 809,51	R -	R -
Mpukunyoni water remedial	R 8 000 000,00	R 12 661 765,00	R -
Mtuba sanitation	R 13 000 000,00	R 15 000 000,00	<b>R 15 000 000,00</b>
Mtuba Water Treatment Upgrade	R -	R -	R -
Rudimentary Program 6 uMkhanyakude District Municipality	R -	R -	R -
Rehabilitation of existing Shemula Water Scheme	R 5 000 000,00	R 10 000 000,00	R 10 736 880,00
Rehabilitation of existing Jozini Water Scheme	R 3 146 416,00	R -	R -
Rehabilitation of uBombo Water Scheme	R 2 000 000,00	R 6 561 400,00	R -
Shemula water upgrade	R 8 000 000,00	R 10 000 000,00	R 4 348 655,80
Thembaletu Sanitation	R 7 000 000,00	R 10 000 000,00	R 15 000 000,00
<b>Refurbishment Projects</b>			
<b>WCWDM Programme within Umkhanyakude DM</b>	R 48 026 630,49	R 40 000 000,00	R 50 000 000,00
<b>Refurbishment &amp; Upgrades of WWTW and sewer networks</b>	R 8 000 000,00	R 10 000 000,00	R 8 000 000,00
<b>Ingwavuma Boreholes (Drought)</b>	R 3 497 135,00	R -	R -
<b>Hluhluwe Phase 2 Water Upgrade (Drought)</b>	R 5 270 005,00	R -	R -
<b>Mtubatuba Emergency Water - Wellpoint Installations (Drought)</b>	R 2 229 112,00	R -	R -
<b>Bhoboza to KwaMsane Gravity Main Project (Drought)</b>	R 3 912 792,00	R -	R -
Greater Mseleni Water Supply	R -	R 5 000 000,00	R 8 000 000,00
KwaZibi Water Projects	R -	R 5 000 000,00	R 8 972 897,42
Hluhluwe Phase 3 Scheme Upgrade	R -	R 5 000 000,00	R 10 000 000,00
Greater Ingwavuma Phase 2	R -	R 8 416 183,22	R 6 583 816,78
Nondabuya CWSS Upgrade	R -	R 5 250 000,00	R 8 750 000,00
eTshaneni CWSS Upgrade	R -	R -	R 10 000 000,00
Approved rollover	R -	R -	R -
<b>Capex exoenditure</b>	<b>R 197 145 900,00</b>	<b>R 214 415 950,00</b>	<b>R 225 392 250,00</b>
<b>Opex PMU</b>	<b>R 10 376 100,00</b>	<b>R 11 285 050,00</b>	<b>R 11 862 750,00</b>
<b>Totals</b>	<b>R 207 522 000,00</b>	<b>R 225 701 000,00</b>	<b>R 237 255 000,00</b>

## Water Provision

Access to basic water services were provided to more than 4000 households exceeding the annual target of 3000. The following projects had a direct impact on the achievement:

- Jozini Regional Community Water Supply Scheme Phase 1A
- Rehabilitation of the Existing Shemula Water Scheme
- KwaJobe Community Water Supply Scheme (Ntshongwe/Malobeni)

The following challenges were experienced during the financial year:

- Some projects are implemented over multi years where the reticulation which directly benefit the communities can only be done once the bulk water infrastructure has been completed.
- Contractor performances had an impact on the progress of several water projects

## Sanitation

The following sanitation projects successfully implemented, provided basic services to 5847 households exceeding the target of 1400 for 2016/2017:

- Mtubatuba VIP Sanitation
- Ingwavuma VIP Sanitation
- Jozini RHIG Sanitation

## Challenges for Technical Services

Challenges	Proposed Interventions
Vacant critical positions	Fill critical vacant positions with appropriately qualified personnel
Lack of planning of infrastructure projects	Develop all water services planning documents e.g WSDP
Over expenditure and failure to complete projects in time	Capacitate the PMU with adequate and qualified staff
Inadequate maintenance of infrastructure	Establish 2 or more regional centres, with satellite offices in each water supply scheme area, using locally based people. Implement training schemes for all operations staff, establish performance criteria and career paths for the more capable employees. Work with government institutions and water boards to implement maintenance programmes and the Asset Management Plan
Persistent backlogs	Finalise the WSDP and the O&M plan from the master plan and other reports, with help & funding from DWS and COGTA.
Inadequate capacity to properly handle electricity supply function	Sign a SLA with Eskom to take over this role



Challenges	Proposed Interventions
Lack of record drawings for infrastructure	Establish a working relationship with the GIS department to adequately and continuously store, repair and update information on all projects and operational schemes.
Too many non-functional schemes	Prioritise refurbishment projects in the IDP to assist with critical repairs & replacements to damaged, dysfunctional and missing infrastructure, including pumps, motors, controls, building, pipelines, valves, water meters, reservoirs, etc.
Slow progress on projects due to late payments	Improved coordination with the finance department with regards to timeous procurement of funds and payments to all service providers
Illegal connections	Installation of water meters to all customers including identified illegal connections. Undertake effective community education programmes. Establish Water and Sanitation Bylaws to help reduce bad behaviour by legal means.

### **3.3 Community Services Planning and Economic Development**

#### **3.3.1 Special Programmes**

The District Artists are involved into different genres including Gospel, Isicathamiya, Choral, kwaito, hip hop, R&B, Ingoma and many more. Some are lately in involved film acting industry. Most of these Artists are hungry for the Audience and they demand to be on stage no matter how big or small the event. Another most desired support is for them to record their music so that they can be able to economically sustain themselves.

The following programmes occurred:

##### **Arts and Culture**

Supported the Isicathamiya groups by coordinating the District and Provincial Annual Playhouse Competitions. The Group also got exposure to recording companies

Facilitated the Choral Music Workshops for the Youth-in- school and coordinated their circuit, District, Cluste, Provincial and National Choral Competitions. Highlights: Two District Choirs made it to the National Motsepe Foundation Eisteddfod and one choir by the name of uPhaphazi Youth Choir from Mtubatuba Municipality won a total of R59 000 which was then translated into resources

Coordinated and supported the District Young maidens (izintombi) participating in the Annual uMkhosi womhlanga held at eMachobeni Royal Palace.

The Municipality could not support the activities for the Youth-in-Community like Ingoma, kwaito and other genres because of the zero budget the section was operating in.

##### **CHALLENGES**

- Operating under zero budget
- Unfilled vacant post for Arts and Culture
- Municipal vehicles were sometimes not accessible due to shortage, fuel unavailability as well as unsafe vehicle conditions
- Subsistence and Travelling suspended

##### **Senior Citizens**

All the District Communities from 60 years and above fall under the Senior Citizens. This group is vulnerable to various old age diseases like diabetes, high blood pressure, Alzheimer, mental disturbances and a lot more. One of the ways to assist them is to engage them in various old aged sporting codes. They are also vulnerable to crime like rape and some form of abuse because they are most of the time home alone. Their grandchildren give birth and dump children with Senior Citizens. Senior Citizens Government grants are of prime importance to them. Surprisingly some of their family members would abuse them by robbing them of their grants.

The Department coordinated and the Municipality supported Senior Citizens Golden Games at a District, Provincial and National events. Their meetings successfully sat to discuss issues related to them.

## **Gender**

The District Women are still faced with challenges of abuse, discrimination and looked down upon in many ways including employment in Senior positions. They need a lot of workshops for empowerment in order to unlock their potential and direct it to economic empowerment.

Empowerment Women workshop was held 24 March 2017 in conjunction with the Department of Arts and Culture. Budget constraints hampered implementation of some projects.

## **HIV AND AIDS**

The District AIDS Council (DAC) is the structure that deals with the issues of HIV and AIDS and its related effects to the communities within the District and employees of uMkhanyakude. The structure is driven by the following Primary Objectives:

- Addressing Social and Structural Drivers of HAST Prevention, Care and Support
- Prevention of HIV, STI;s and TB Infection
- Sustaining Health and Wellness
- Ensuring Protection of Human Rights
- Coordination, Monitoring and Evaluation

This structure is comprised of the Sector Departments, Civil Society Organizations, Non-Government Organizations (NGO'S), Community Based Organization (CBO'S), Faith Based Organization(FBO'S), Traditional Health Practioners (THP'S) as well as all Mayors of all Local Municipalities with the District Mayor as the chairperson. The structure deals with the issues from the Local AIDS Council (LAC'S) in all four Local Municipalities which are UMhlabuyalingana, Jozini, Big Five Hlabisa and Mtubatuba. The Local Aids Council reports to the District AIDS Council in a form of written reports which are collated and discussed at the District Aids Council meeting. The District Aids Council should then report to the Provincial Council on AIDS (PCA), the Provincial Structure chaired by the Premier.

The province through the programme has mandated the Secretariat to coordinate awareness campaign to employees of uMkhanyakude. This is done quarterly and it should be reported back to the Province. This is done to eliminate, educate, encourage the employees to be proactive to issues of HIV and AIDS, support the infected/affected.

Community outreach programme relating to teenage pregnancy, sexual assault.  
This programme could not be achieved due to financial constraints.

Workshop for traditional health practitioners.  
This programme could not be achieved due to financial constraints.

Workshop for people living with HIV and AIDS.  
This programme could not be achieved due to financial constraints.

Employee Wellness Programme was achieved, financial assistance was requested from the employees and business sectors in order to support the programme. Department of Health, SAPS, Business sectors are in support of the Programme. They have assisted in rendering the services to the UKDM employees, HCT, TB screening, checking of vital signs and those infected or affected are referred accordingly.

DAC meetings were happened. The District secretariat supported all four LAC; s in their meetings. DAC has sat as expected, reported consolidated and submitted to the Province for the PCA

World AIDS Day happened through the support from the Champion MECS Office as it has no budget from the Municipality.

## **Challenges**

- The uMkhanyakude HIV and AIDS Programme is facing high challenges on sexual assault cases, High Positivity rate, high rate of people defaulting TX. High infants' deaths 35, sexual assault 243 and teenage pregnancy 1557. STIS treated 23019 which is an indication that very few are using condoms. Patients deregistered due to death 499. Patients deregistered due to loss of follow up 3743
- Poor support from chairperson of the LAC
- Non-Functionality of the war rooms
- Tools of trade are very much limited. Transport has hindered the execution of the service delivery such that some of the meetings, workshops were unable to attend.
- Moreover, it has posed so many risks to employees' welfare because most vehicles are no longer road worthy. There are cases whereby one finds himself or herself stranded

## **Children's Programme**

Umkhanyakude has a big population of children facing different challenges. Others are school going children, others still in ECD's, others are OVC's and living in the children homes. There is the Children Advisory Council which was launched on 26 March 2016, discussing all issues that relates to children

Three (3) meetings for District Advisory Council for Children were conducted in the financial year of 2016/2017 instead of four (4).

A Peaceful march for 16 Days of Activism Against Children Abuse with department of education was conducted where 4000 learners attended the event on the 27<sup>th</sup> of September 2016 at Shayina Sports ground.

Some of the District Children representatives attended the Provincial International Children's Day held on 03 June 2016 in Durban.

The District had the Children's Workshop on 13 May 2017.

The Programme for Take a Girl Child to Work was not achieved.

### **Challenges**

- Development of SDBIP before budget authorisation / approval
- Non - existence of local municipalities' forums

### **Disability Programme**

7% of the District population are disabled people. This group has been previously been disadvantaged. Most of them are not educated, they have limited resources like assistive devices. The community is still discriminating them; they are kept behind doors as they are not participating to any community activities. Most of them are killed due to their conditions especially people with albinism as they believe that they body parts are used for traditional medicine.

One (1) campaign out of two (2) Community Disability Awareness Campaigns was achieved

Goal ball training for the blind people was held on 07 – 08 July 2016.

Six (6) meetings were conducted for District Disability Forum Meetings the year instead of four (4)

The District committee on Disability was not elected as local municipalities could not elect their local structures.

### **Challenges**

- Development of SDBIP before authorisation or approval of budget
- Non - existence of local municipalities' forums
- Operating at zero budget
- Fuel shortage to run municipal vehicles.
- Municipal vehicles not in good order.

### **Sport**

Umkhanyakude District Municipality has a number of young people who are in love with the sports and are doing sports for both recreation, as a career and to stay away from the social ills. The District Municipality has been assisting them for the past years until 2015 where the District's participation has decline if not stopped at all. This has led to many young people not fully participating in the 2016 Local Government elections as they felt that the District Municipality does not give a dam about the sports men and women of this District

This is another annual program which took place in August of every year, The District only assisted with coordination since there was no budget for these games. The Department of Sports and Recreation and local Municipalities were the one that assisted with accommodation and attire respectively to avoid the disgrace of the district players looking like street kids.

The District participated in 8 sport codes at SALGA KZN DSR Games, won 1 Gold and 2 silver medals.

The District participated in the Provincial Indigenous Games Festival event.

The District was able to assist the sports codes only with transport when they had to represent the District in Provincial Tournaments.

#### CHALLENGES

- Budgetary constraints which caused the Municipality to hesitate its participation to SALGA Games, thus participating at an eleventh hour.
- Unavailability of transport to attend meetings coupled with shortage of petrol

#### Youth

The young people of Umkhanyakude are historically disadvantaged and need to be prioritised and assisted on the programs that will seek to give them opportunity to grow and contribute to the economy of this District. Young people lack leadership skills and need to be guided to the right direction by the District Youth Council which is yet to be launched. Youth leadership development needs to be funded and a number of young people to participate in them. There are young people who need to be assisted to start or to sustain their businesses.

Due to Budgetary constraints, Umkhanyakude District Youth Council could not be elected

Due to Budgetary constraints, youth development programs could not be supported

Due to Budgetary constraints, youth businesses could not be supported.

#### Challenges:

- Telephone is limited to Secretary Offices thus making it difficult to do the thorough coordination.
- The political interference in local Municipalities led to their youth structures not launched.
- If the District could combine and fund the above mentioned programs, Young people would have necessary Leadership skills, Knowledge of managing and running their own business and be able to fight poverty.

### 3.3.2 Local Economic Development (LED) & Tourism Development & Marketing

The economic profile of uMkhanyakude District Municipality is correctly determined by the Local Economic Development (LED), which is Tourism and Agriculture. Planning and Economic Development Department is the main unit that expedites stimulation of uMkhanyakude Local Economic Development and Tourism services. This happens through a lot of cascaded programmes that the said unit has developed. It aligns itself with other components that have the potential in increasing job opportunities and poverty eradication. The district is proactive in assuring the growth of the local business operations. To ensure continued Economic development in the area, the key priorities of uMkhanyakude district include the following:

#### Core Functions & Services

- Policy and strategy development
- Economic development, community-based poverty alleviation projects
- Training and capacity building programmes
- Cooperatives and SMME's development. Aligning the strategic direction of Spatial Development Plans

#### Key Performance Indicators

- Develop and support SSME's and co-operatives through infrastructure development:
- Co-op and SMME's Development programme
- Mseleni Groundnut project
- Creating Jobs opportunities through LED initiative (EPWP)
- Developing Rural Tourism through adopting Responsible Tourism practices;
- Improving job creation opportunities and tourism service excellence;
- Channel efforts for tourism entrepreneurial opportunities
- Agri Parks
- Radical Agrarian Socio-Economic Transformation (RASET)

The summary below indicates the highlights for:

#### a) LED Strategy

- The terms of reference have been developed and is done in-house
- Identification of stakeholders and establishment of the Project Steering Committee is in progress

#### b) Mseleni Groundnut Project

- Construction of pack house has been completed
- Site clearing and Planting is underway
- Fencing has been done
- Closeout report has been submitted to COGTA

Below are photos from the project site;



*The inside*



*The Outside*





*Plantation from the site*



*The fencing*

### **c) Informal Economy Chamber**

- Informal economy plays a crucial role in improving and contributing a huge percentage to the economy of the district
- District managed to revive the informal chamber for all local municipalities whereby all the chairperson for local municipalities are members of the district forum

- The function of this chamber is to report on challenges faced by informal traders
- Four meetings sat in the financial year 2016/2017
- Quarterly reports were submitted to the Provincial Informal Chamber and to the districts.
- Sewing machines were bought and handed over to the beneficiaries.

#### d) **Agri-Parks.**

An Agri-Park is a networked innovation system of agro-production, processing, logistics, marketing, training, and extension services located in District Municipalities. As a network, it enables the growth of market-driven commodity value chains and contributes to the achievement of rural economic transformation.

Agri-Parks offer a viable solution in addressing social and economic inequalities, unemployment and poverty by promoting agro-industrialisation within small-scale farming and emerging commercial farming sectors, thus ensuring that the escalated land distribution, more inclusive restitution and strengthen land rights are accompanied by equitable, efficient and well-planned land and agricultural development.

The Department of Rural Development and Land Reform, KZN Department of Agriculture and uMkhanyakude District family of municipalities has embarked on a journey to compile a credible and implementable business plan which will talk to the District farmer's needs.

So far, three commodities have been identified, which are believed to have the desired impact in the quest to change the situation of the district. These commodities are;

- Vegetables
- Livestock and
- Cotton

However, it must be noted that this does not mean these three are the only commodities that you can find in our district, but they are the prioritized commodities. This is in line with the Department of Rural Development and Land Reform that only three commodities are to be identified. Thus far the District has established a committee called District Agri-Park Management Committee (DAMC) which seeks to represent the interests of the communities of the district.

Implementation plan and business plan have been compiled. A Project Steering Committee called District Agri-Park Operations Task Team (DAPOTT) sits bi-monthly.

#### **e) Radical Agrarian Socio-Economic Transformation (RASET)**

A Programme, dubbed Radical Agrarian Socio-Economic Transformation (RASET), for the participation of Farmers with previously disadvantaged backgrounds in the food value chain was initiated following resolutions of the Provincial Cabinet (Resolution 246) on the 6<sup>th</sup> of July 2016 and resolutions of the MEC's (EDTEA) Consultative Workshop on the 10<sup>th</sup> of January 2017.

RASET is an empowerment programme for previously disadvantaged individuals (PDIs) to participate in the production, processing and distribution of food within the food value chains.

A Project Team was put together consisting of departmental officials (from DARD, COGTA, EDTEA, MEC, OTP, DOE, DOH and DSD) permanently seconded to the RASET programme. The team started operating during the second week of January 2017 located at the Durban Fresh Produce Market.

The RASET team has, after conducting consultative meetings with the farmers for the whole District, compiled a report for the whole district including models to be used for the programme to be a success and link with the agri-park programme.

These are some of the resolutions that emanated from these engagements with the local communities:

- All stakeholders including Government Departments must assist the Secondary Cooperatives
- Farmers must interact with stakeholders through the Secondary Cooperatives.
- The new Secondary Coop must be a home for all Black African Crop Farmers of South African origin and with previously disadvantaged backgrounds within their Local Municipalities.
- The new Secondary Cooperative should be named after the names of their Local Municipalities

#### **f) Extended Public Works Programme (EPWP)**

UMkhanyakude District Municipality has been identified as the presidential poverty node. This is because it forms one of the municipalities that are trapped within the triple challenge deprivation trap (poverty; unemployment; and inequality). Within UMkhanyakude District Municipality, the EPWP remains the main mechanism that has reckonably benefited UMkhanyakude District Municipality residents.

The Expanded Public Works Programme is a government programme that is aimed at mitigating poverty and unemployment levels. This programme certifies full engagement on Labour Intensive Methods of Construction (LIC) to contractors for skills development. The EPWP emphasizes reduction of unemployment through intensified economic growth. As such, engagements on improving skills levels through education and training; and improving the enabling environment for the industry to flourish are ensured.

The programme became one of the resolutions of the June 2003 Growth and Development Summit (GDS), which is guided by the Ministerial Determination (Code of Good Practice and Basic Conditions of Employment Act for EPWP projects).

Specifically, the UMkhanyakude municipality EPWP objectives include the following:

- § Ascertain that low class citizens of UMkhanyakude District are catered for in terms of created job opportunities;
- § Utilize the EPWP as a potential platform to maximize livelihood for the people of UMkhanyakude;
- § Promote climate change mitigation measures through efficient waste management;
- § Efficiently utilize the municipal infrastructure projects to transfer construction skills which later be converted to business opportunities; and
- § Increase number of Full Time Employment opportunities;

UMkhanyakude District municipality through its environment and Infrastructure sector has directly created a total number of one hundred and eighty three (183) EPWP job opportunities, which is an improvement from 78 of the previous financial year (2015/16). However, the district municipality failed to meet the required Full Time Equivalent (FTE) and Work Opportunities (W/O) as set out in the Ministerial Determination. The appointed beneficiaries were allocated in UMkhanyakude water scheme sites for water leaks and infrastructure maintenance at a budget of R1 293,000.00. This was an Integrated Grant and it was exhausted in March. Since then the district municipality has been paying the salaries from the equitable share.

A Memorandum of Understanding (MoU) has been signed for trainings between the district municipality and MTL Training and Projects through the Department of Economic Development, Tourism and Environmental Affairs. This will be implemented in 2017/18 financial year.

The below table highlights the performance achieved by uMkhanyakude district municipality as reported on EPWP reporting system which is based on jobs created;

Municipality	No. of Projects Reported	WO Target	WO Achieved To Date	FTE Target	FTE's Achieved To Date	% Achieved	
						W/O	FTE's
Umkhanyakude District Municipality	6	2159	257	707	120	12%	17%

## **g) District Investment Strategy**

The Provincial Department of Economic, Tourism and Environmental Affairs did a study for UMkhanyakude District Municipality. The study has been finalised and it was presented on the Community Planning and Economic Development Portfolio meeting but was deferred. It is yet to be adopted by Council.

## **h) Tourism Development and Promotion**

Tourism has been identified as one of the six fixed priority areas in the New Growth Path (NGP). The Umkhanyakude District Municipality through its Tourism Development and Promotion programme aims to engross towards the marketing and further identification of the already existing but unremarkable tourism products and services within the area. The focus of UMkhanyakude District Municipality is on both development and facilitation of tourism growth within the area. This is through providing support to a variety of public and private tourism key stakeholders at UMkhanyakude Stimulating Domestic Tourism and Education

- Successfully participated on Tourism indaba 2017 in DBN ICC. Tourism Indaba is an international trade show; it assists to market and link up with well-established products owners.
- Held 3 District Tourism Forum Meetings as per the SDBIP, however the 4<sup>th</sup> one couldn't sit because of non-confirmation of participation by the stakeholders.
- Good relationship with tourism and LED sector departments and other relevant stakeholders.
- Participated in the Project Steering Committee meetings for KZN-Sodwana Bay – Amangwane Community Lodge, Muzi Pan Adventures and Lodge.
- Participated on Local Municipalities Tourism Forums, although some Local Municipalities find it very hard to host their own tourism forums.
- Participated in the Waste Management Meetings, because the Waste Management issue within the District seems to have a negative impact on tourism.
- Participated on CTO meetings and AGMs
- Participated on a 4 Provincial Tourism Forum meeting
- Submitted Tourism projects proposals to National Department of Environmental Affairs for funding.

## Sector Departments Funded Projects

We managed to secure funding for the following tourism projects

Project name	Description	Location	Funding	Lead department	Status
Muzi pan adventures and lodge	Accommodation, canoeing and bird viewing	Jozini LM	R10 Million	National Department of Tourism	complete
Hlathikulu Camp site	Tented camps	Jozini LM	R4 Million	Department of Environmental affairs	complete
Amangwane Community Lodge	Accommodation facilities	UMhlabuyalingana LM	R18 Million	Department of Environmental Affairs	Planning

## Key challenges & recommendations

Challenges	Recommendations / Action Plans
1. General lack of a culture of reporting and accounting to various municipal structures about activities performed by LED.	<ul style="list-style-type: none"> <li>Engage in ongoing reporting to various structures, ie Manco, Portfolio Committees, Exco and Council.</li> </ul>
2. Delay of filling critical posts LED Manager, Two Tourism officers.	<ul style="list-style-type: none"> <li>Filling of posts</li> </ul>
3. Lack of project management knowledge with the existing staff	<ul style="list-style-type: none"> <li>Ongoing training on projects management</li> </ul>
4. Lack of a District-Wide LED strategy and investment strategy	<ul style="list-style-type: none"> <li>Compiling and adopt the LED plan and investment strategy</li> </ul>
5. Insufficient LED and Tourism budget	<ul style="list-style-type: none"> <li>District to increase tourism and LED budget</li> </ul>
6. Tourism transformation	<ul style="list-style-type: none"> <li>Development of a transformation plan</li> </ul>
7. Illegal tourism establishment	<ul style="list-style-type: none"> <li>Development of tourism bylaws</li> </ul>

### 3.3.3 Environmental Health Services

A joint (Health and local government) MINMEC was taken in 2002 that municipal health Services be defined as a list of Municipal Health Services. The municipal health services focuses on the key performance areas as defined in the national health act. According to the Municipal structures Act 1998 (Act no117 of 1998) section 84(1), Municipal health service is the responsibility of the District Municipality.

The following hereunder are the 9 (nine) components that are being rendered within Umkhanyakude District municipality with an aim of reducing the communicable diseases viz;

- Water quality monitoring
- Waste management
- Food control
- Health surveillance of premises
- Surveillance and prevention of communicable diseases excluding immunisation
- Vector control
- Environmental pollution control
- Disposal of the dead
- Chemical safety.

#### Highlights

The following hereunder are the highlights as per Service Delivery Budget Implementation plan for 2016/2017 financial year.

- This section planned to take 60(sixty) water samples per quarter from all water sources where communities get water for human consumption. The samples taken in the last quarter were doubled (130) since our staff had enough transport. Water sampling is done to prevent all communicable diseases that are related to water and sanitation.
- All our Environmental health practitioners are registered with the Health Professions Council of South Africa since it is a requirement by Health Professions Act (act 56 of 1974). This was planned as per SBIP.
- Food sampling is one of the major programmes within the district municipality where we ensure that foodborne illnesses are prevented. Monitoring is done in shops, infant formulas for kids in hospitals and informal traders. The target was achieved for the last two quarters as planned in the SDBIP.
- Bylaws were developed and presented to all different structures for approval, more and above, the workshop was conducted to councillors on bylaws and they were adopted in June 2017.

#### Challenges

- Transport remained a major challenge within the district municipality. Most of the activities from quarter 1(one), 2(two) and 3 were not achieved due to none availability of transport.
- The trainings on food safety protocol to informal traders were not done due to none availability of transport.
- Shortage of staff by 53 Environmental Health Practitioners and the programme is operating with 8 EHPs.

### 3.3.4 Disaster Management

The Practitioners and District Disaster Management Advisory meeting seats every quarterly and both meetings are very successful although there is a steady decline in the attendance of government departments with regard to the advisory forum and various other stakeholders that take part in the seating. The forum was last seated on the 4<sup>th</sup> of May 2017 at the uMkhanyakude UDDMC boardroom. The practitioner was last seated on the 25<sup>th</sup> of April 2017. The meeting was merged with the District Fire TTT and this comprised of various stakeholders including RTI, SAPS and EMRS.

The Head is supported by four Disaster Management Officers who are strategically allocated at municipalities to ensure the fulfilment of the Disaster Management mandate. The officers offer technical support to the local municipalities and fulfil all the requirements set in the job descriptions and UKDM SDBIP.

The Chief Fire Officer, the Supervisor for the control centre and the five control centre operators as employees of the district municipality, support the district when responding and reporting the incidents.

Out of 4 LMS only 2 have developed their Disaster Management Plans, which are uMhlabuyalingana and Big 5 Hlabisa local Municipality. The other 2 which is Jozini has sourced it out to the service provider and Mtubatuba Local Municipality is 25% completed.

All incidents are attended to as and when they get reported, whilst rapid and effective response is done in a multi-disciplinary manner in partnership with other disaster management role-players. In its role of disaster management co-ordination, the district responds to incidents in supporting the four local municipalities within the uMkhanyakude District i.e. uMhlabuyalingana, Jozini, Big 5 Hlabisa and Mtubatuba Local Municipalities. All applicable contingency plans (unique to particular hazards) get implemented as and when there is a need, with all role-players acutely aware of their roles and responsibilities.

There was a decline in the number of incidents during the fourth quarter, in which the second quarter had the highest number of households affected as well as people affected during the 2016/2017 financial year. During this financial year three hundred and thirty eight (338) incidents occurred, a total number of three thousand and seventy one (3071) people were affected so far, this is coupled with eight hundred and seventy six (876) affected households.

Nearly 25 % of the incidents during 2016/2017 financial year were household fires whilst lightning was a major cause of fatalities.



## Challenges

- The pressing issue is that of a disaster management officer/head within a specific municipality, uMhlabyalingana and Jozini local municipality recently had their officers resigned, this leaves a gaping hole within the disaster management teams at this municipality. All Fire and rescue services within the locals and the district are not up to standard and need to be addressed soon as proven in the 2017/2018 financial year fires are the most rife disaster incidents.
- The second issue concerns the communication; there are serious challenges in as far as communication is concerned, particularly because there is no radio and cell phone communication system. The communication between the local fire stations and the district call centre and the communities at large is of utmost importance.
- The unsatisfactory state of the local fire and emergency rescue services can be directly linked to the reduction of budget as compared to the budget allocation during the time of service provider (Rural Metro) and poor management. However the situation has not reached the crisis level yet, the observed challenges can be quickly solved if there is a willingness and recognition of the importance of disaster management, fire and emergency rescue services within the District and Local Municipalities.

### **3.3.5 District Development Planning Shared Services**

#### **Development Planning Services Programme (DPS)**

Under the reporting period the Development Planning Services was strategically responsible for the overall facilitation, coordination, implementation, management and monitoring of the following core functional areas as well as Performance Highlights presented below according to each core function. A table under each core function is provided indicating broad challenges that was facing the section under reporting period. Similarly a suit of possible recommendations to the identified challenges is included in the same table.

#### **Development Planning Services**

##### **Key Performance Areas (KPA's):**

- Cross-Cutting Issues

##### **Core Functions & Services**

- Spatial Planning
- Land Use Management & Administration
- Geographical Information System (GIS)
- Human Settlement Planning & Coordination
- Integrated Transport Planning
- Environmental Planning & Management
- Building Inspectorate and Control
- Secretariat to the District Development & Planning Commission (DDPC)
- District Growth & Development Planning (DGDP)
- District Development Planning Services Governance & Coordination (i.e. District Development Planners Forum)
- District Environmental Planning & Management Governance & Coordination (i.e. District Environmental Planning & Management Forum)

##### **The 2016/2017 Development Planning Services Performance Highlights:**

- Continuous Shared Services support to all the local municipalities;
- support Supported and Coordinated the Review & Adoption of Spatial Development Frameworks (SDFs) 2016/2017 FY of Family of Municipalities;
- Participated in the development and implementation of the Provincial Precinct plan for Manguzi town;
- Represented uMkhanyakude where necessary in the Implementation of the iNkululeko Development Projects – Ndumo;
- Represented the District in the Management of the Dukuduku On-site-Resettlement Project Coordinating Committee (PCC);

- Facilitation the implementation of the Mtubatuba Urban Design Framework funded by COGTA (i.e. infrastructure installation);
- Participating in the Strategic Planning Session and facilitating the establishment of the Sustainable Development and Planning Department for Mtubatuba LM;
- Facilitation of the merging of Hlabisa and Big 5 planning work following the amalgamation of Hlabisa LM with Big 5 False Bay LM;
- Supported and Coordinated the processing of Planning & Development Act (PDA) development applications throughout the District and submitted 4 quarterly PDA Register reports to Council for consideration;
- Represented the District in all Provincial Geographical Information (GIS) Technical Forum Meetings;
- Represented the District in all the Provincial Environmental Management & Coordinating Committee (PEMCC) Meetings;
- Coordinated and Managed the functioning the District-Wide Development Planners Forum by staging at least six (6) Forum Meetings;
- Successfully Managed the Development Planning Shared Services (DPSS) facility and facilitated the conversion of the DPSS Contract-based staff into Permanent-based staff and amalgamation into District Organizational structure;
- Successfully compiled the revised District-Wide DPSS Business Plan for 2016 – 2017 and managed monthly reporting on the applicable grant from COGTA.
- Continuous coordination of SPLUMA Implementation within the District in partnership with LMs;
- Contributed in the Annual Review and Adoption of 2016/2017 FY District and Local Municipal Integrated Development Plans (IDPs) by 30 June 2016;
- On an ongoing basis continued to provide development planning input, support and advise in various sector-specific fora and platforms as and when required such as follows: Municipal Managers Forum; Local Municipal Housing Forums, LED Forums, Disaster Management Forums, Tourism Forum, Infrastructure Forum, Waste Management Forum; IDP Representative Forum (RF); Etc.....
- Participated & Contributed in the Annual Review of the Human Settlement Plans as well as the functioning of the Human Settlement Forums for Family of municipalities;
- Participated in the Development of the Cogta-Funded Mtubatuba Urban Design Framework Plan;
- Participated in the 2016/2017 FY Annual Strategic Planning Session;

### Key Challenges & Recommendations:

Challenges	Recommendations / Action Plans
1. General lack of a culture of reporting and accounting to various municipal structures about the activities performed by the Development Planning services section	<ul style="list-style-type: none"> <li>• Revisiting of strategic agreements between the District and its locals scheduling planning work.</li> <li>• Engage in ongoing reporting to various structures, i.e. Planners forum, Manco, Portfolio Committees, EXCOs, Council, etc...</li> </ul>
2. Lack of adequate knowledge and understanding of the strategic importance of the development Planning function within the family	<ul style="list-style-type: none"> <li>• Ongoing Training, Capacity Building Campaigns and awareness</li> <li>• Making Presentations etc...</li> <li>• Advocating that development decisions be taken in line with strategic planning tools.</li> </ul>
3. Inadequate adherence to the Provision of the District and Local Municipalities SDFs and thus leads to Urban Sprawl	<ul style="list-style-type: none"> <li>• Ongoing Training, Capacity Building Campaigns and awareness</li> <li>• Making Presentations etc...</li> <li>• Ensuring that SDF is implemented and used as guide for day to day decision making in municipalities</li> </ul>
4. Lack of a fully functional GIS System in the District due to lack of Capacity among other reasons	<ul style="list-style-type: none"> <li>• Making Budgets available to acquire needed GIS Hardware and Software</li> </ul>

Challenges	Recommendations / Action Plans
	<ul style="list-style-type: none"> <li>Establishment of the District-Wide GIS Hub that will serve the various of clients within the District</li> </ul>
5. Lack of implementation of a single Long Term District-wide Growth & Development Plan	<ul style="list-style-type: none"> <li>Facilitate the Implementation of the District-Wide Growth &amp; Development Plan (DGDP) to guide long term planning &amp; development in the district</li> </ul>
6. Lack of adequate capacity and necessary to perform the Environmental Planning & Management function in the District	<ul style="list-style-type: none"> <li>Include the Unit of Environmental Planning &amp; Management in the Organogram within the Department of Community, Planning &amp; Economic Development (CPED)</li> <li>Facilitate the Implementation of the District-Wide Environmental Management Framework (EMF) Plan</li> <li>Compile, Adopt &amp; implement the District-Wide Integrated Waste Management Plan (IWMP)</li> <li>Establish the District-Wide Environmental Planning &amp; Management Forum to help coordinate all related issues in the DM</li> </ul>
7. Lack of a Comprehensive Framework Plan for the implementation of Land Use Management Systems & Administration function throughout the District	<ul style="list-style-type: none"> <li>Compile and Adopt a comprehensive Framework Plan for the Preparation of Wall-to-Wall Schemes in terms of SPLUMA &amp; PDA throughout the District</li> </ul>
8. General lack of understanding of the implications of the latest Planning Laws in Municipalities, i.e. Spatial Planning & Land Use Management Act (SPLUMA) & Planning & Development Act (PDA).	<ul style="list-style-type: none"> <li>Facilitate Planning Laws Training &amp; Awareness Sessions throughout the District and with other key stakeholders</li> <li>Establish the Municipal Planning Tribunal (MPT)</li> <li>Institutionalize the implications of the new Planning Laws by amending the Organizational structures and making budget provisions..</li> </ul>
9. Lack of a reviewed District-Wide Integrated Public Transport Network (IPTN)	<ul style="list-style-type: none"> <li>Compilation and Adoption of the District-Wide Integrated Public Transport Network (IPTN) for uMkhanyakude Family of Municipalities</li> </ul>
10. Delays in the establishment of the District-Wide Joint Municipal Planning Tribunal JMPT)	<ul style="list-style-type: none"> <li>Secure Principle resolution from Municipal Managers Forum to fast-track the signing of the JMPT Agreement by 30 June 2016</li> <li>Facilitate the process of developing &amp; gazetting of SPLUMA By-laws by the remaining local municipalities before 30 June 2018.</li> </ul>
11. Lack of institutionalization of the Building Inspectorate and Control Function within the District and Local Municipalities	<ul style="list-style-type: none"> <li>Prepare and Submit a Business Plan to source funding from KZN-Cogta for the appointment of the Building Control Officer at a District level.</li> <li>Facilitate for the institutionalization of the Function by local Municipalities</li> </ul>

### **3.3.6 uMhlosinga Development Agency (UMDA)**

Relations between Umkhanyakude District Municipality and its entity, uMhlosinga Development Agency have improved. The District Municipality is committed to providing necessary support to the Development Agency. Necessary monitoring and evaluation of performance for the Development Agency will be conducted at regular intervals based on the signed service level agreement.

Full Annual Report for UMDA is contained in Annexure E.

### 3.4 Office of the Municipal Manager

Functions of the Office of the Municipal Manager are as follows:

- Establishing, develop and manage economically viable, effective and accountable administration.
- Taking full liability for sound financial management.
- Coordinating and manage Intergovernmental Relations (IGR).
- Ensuring sound co-operative governance.
- Managing the Municipality's administration in accordance with the Constitution, Local Government Structures Act, the Municipal Systems Act, the Municipal Finance Management Act, the Public Management Act and all other provincial and national legislation applicable.

#### Participation of Traditional Leaders in Municipal Council Meetings

Legislative Background (Section 81 of Municipal Structures Act)

*81. (1) Traditional authorities that traditionally observe a system of customary law in the area of a municipality, may participate through their leaders, identified in terms of subsection (2), in the proceedings of the council of that municipality, and those traditional leaders must be allowed to attend and participate in any meeting of the council.*

Five members of the Traditional Council are sitting regularly in all Council meetings.

#### The Intergovernmental Relations (IGR)

The Provincial COGTA provided grant funding to support the Umkhanyakude family of municipalities in strengthening their IGR functions. Necessary forums required to facilitate IGR have been established and terms of reference to facilitate smooth operations for these forums have been developed. Dates of IGR meetings are incorporated in the District Events Calendar.

Protocol Agreements have been signed by all the Mayors and Municipal Managers in December 2013. Technical Forum and Sub Committee did not sit as per the schedule.

Local municipalities have appointed IGR Champions to strengthen communication.

#### Audit Committee

The functionality of the Audit Committee is still lacking and needs serious attention. The committee sat twice during 2016/2017 in April and June. In the next coming financial year the Audit Committee will function smoothly.

## **Municipal Public Accounts Committee (MPAC)**

The MPAC is a committee of the municipal council, appointed in accordance with section 79 of the Structures Act. The main purpose of the MPAC is to exercise oversight over the executive functionaries of council and to ensure good governance in the municipality. This also includes oversight over municipal entity. This committee is not fully functional as its meetings do not sit as per the IGR schedule.

## **Functionality of Bid Committees**

The following committees are functional:

- Bid Specification
- Bid Evaluation; and
- Bid Adjudication

The committees meet as and when required to do so. The Bid committees have standing schedule of meetings. The functionality of these committees is at an acceptable level.

## **Municipal Standard Standard Chart of Accounts (mSCOA)**

The mSCOA provides a uniform and standardised financial transaction classification framework. Essentially this means that mSCOA prescribes the method (the how) and format (the look) that municipalities and their entities should use to record and classify all expenditure (capital and operating), revenue, assets, liabilities, equity, policy outcomes and legislative reporting.

A steering committee for Umkhanyakude District Municipality has been appointed to deal with matters related to mSCOA. The ToR have been agreed to and a schedule of meetings planned has been taking place accordingly. A service provider has been appointed to assist the committee in developing a series of standardised accounts and that exercise has been successfully concluded. Workshops to sensitise all stakeholders about the requirements of mSCOA are ongoing.

The Municipality has complied with the requirements of mSCOA. The budget was prepared as per the required standards.

## **The Functionality of S79 and S80 Committees**

The principal structure of the municipality is Council which is chaired by the Speaker of Council, Councillor, M. S. Msane. The Executive Committee (EXCO) which is chaired by the Mayor of Council, Cllr. T. S. Mkhombo is the delegated political structure that deals with the day to day running of the Municipality

and further reports its affairs to Council for noting and consideration depending on the matter in question.

To ensure effectiveness; council is further divided into various committees which are established in terms of Sections 79 and 80 of the Local Government: Municipal Structures Act (Act no 117 of 1998). These committees include:

- Executive Committee
- Finance Committee
- Corporate Governance Portfolio Committee
  
- Technical Services Portfolio Committee
- Community Services, Planning & Economic Development Portfolio Committee
- Municipal Public Accounts Committee

### **IDP/Budget Consultative Meetings**

The Honourable Mayor Cllr T. S. Mkhombo presented the Draft Budget and IDP with a view to enabling members of the community to make comments before final adoption by Council. The venues for these meetings were as follows:

DATE	MUNICIPALITY	VENUE	TIME
17 May 2017	uMhlabuyalingana	Ward 16 (sScabazini Hall)	09H00
	Jozini	Ward 10 (eDanishini Hall)	14H00
18 May 2017	Mtubatuba	Ward 6 (Mbizimbelwe Hall)	09H00
	Big 5 Hlabisa	Ward 14 (KwaMshaya Hall)	14H00

The speech that the Honourable Mayor Cllr Mkhombo presented was generic to all municipalities except for planned infrastructure which was specific to respective municipalities. The Honourable Mayor highlighted how the three spheres of government were related and further explained what powers and functions are devolved to municipalities. The intention was to make it clear to members of the community that municipalities are not responsible for all functions but some are performed by provincial departments and some a performed by national departments.

The Honourable Mayor Cllr Mkhombo also highlighted social injustices that have split family structures as members of families have to travel to places where there are better job opportunities resulting in unhealthy lifestyles for black people. He further mentioned that poverty index is very high in the District as people have no places where they can work. The population has a high number of youth that is depended upon elders to survive. Elders depend on social grants to keep fires burning at their homes. Basic service delivery is poor as there are high levels of backlogs. People have no decent sanitation facilities, no potable water and most households still do not have electricity, poor road infrastructure network. The Honourable Mayor Cllr Mkhombo indicated to members of the community that the Municipality has plans in place to address these challenges that people face daily in their lives.



The Honourable Mayor then presented the budget which indicated that the total budget for the Municipality is about R 604m for the next coming financial year. About R 207m will be spent on infrastructure. About R 1m will be spent on EPWP. He went on to present specific projects planned for water and sanitation per municipality.

Generally, people raised the following issues:

- Boreholes are required to supply water for irrigation purposes
- Water tanks should be made available to communities without water
- Jojo tanks are available but there is no programme to fill them up with water regularly
- Sanitation facilities are lacking and some are full requiring honey sucker for relief
- No clinics to provide health care to communities
- No low cost houses for the indigent households
- Not all wards were represented at meetings
- Some schools did not have proper water and sanitation facilities and were built next to unsafe roads with no speed calming humps
- Some schools have no admin buildings
- No youth programmes were mentioned during the presentation of projects and programmes
- No sports fields for hosting major games
- Job opportunities are not given to local people
- Umkhanyakude staff deployed to some water schemes are not dedicated to do their jobs
- Water reservoirs are required to sustain water provision in the long run
- Sugar cane farmers need TLBs to dig tranches that would drain water from the fields

The Honourable Mayor responded to all questions raised and promised to address all issues. In instances, whereby the Municipality has no capacity to address matters raised, the Honourable Mayor suggested that such matters should be raised through Operation Sukuma Sakhe sessions or the Municipality will liaise directly with sector departments involved. Senior officials that accompanied the Honourable Mayor were also given an opportunity to give technical advice where necessary. The Honourable Mayor promised to revisit other wards and have some second-round discussions with members of the communities so as to resolve challenges they are faced with.

## 3.5 Financial Services

### Financial Viability

The District Municipality has been on the spot light for some time; but more specifically since March 2015 when COGTA assisted on the developing a Recovery Plan. In September 2015, a support team gave assessment of the state of affairs at Umkhanyakude District in respect of governance, financial viability and service delivery.

From the assessment, it was clear that the situation was getting worse and there was no noticeable improvement. Subsequent to that a decision was taken to implement sterner measures by intervening in terms of section 139(1) (b) of Constitution as from 08 October 2015.

Since October 2015, the district has been under administration / intervention and great reliance has been placed on the support team to assist the municipality with amongst other; financial management and reporting requirements.

### Budget for 2016/17

The municipality began the 2016/17 financial year with an **unfunded budget** as per the Provincial Treasury assessment report. This has been the challenge also in the past with unauthorized expenditure realized amounting to:

Financial Year	Unauthorized expenditure
30 June 2016	R 34 927 618
30 June 2017	R 64 620 189

Whilst there has been challenges with the budget for the current financial year there has been remarkable attempts by the municipality to keep expenditure within allocated votes. However, the unexpected breakdowns of the municipal infrastructure assets coupled with community unrests has again pushed the expenditure on some budget votes such as; repairs and maintenance beyond the allocated budget for the year. Some of the key actions the municipality is undertaking includes but not limited to:

- Compilation of Creditors Repayment Plan
- Performance of Due Diligence on outstanding creditors
- Non-essential procurement stopped with immediate effect
- Formation of budget steering committee
- Monitoring of spending through reliable section 71 reports on monthly MANCO and council structures
- Implementation of mSCOA and compliance with Treasury Guidelines and Circulars and
- Full implementation of Revenue Enhancement Strategy.

## Revenue and Receivables

*The Revenue Management Section is one of the critical functions within the Finance Department, it has three units under it namely; Billing, Receipting and Credit Control. Monthly activities and functions include Consumer accounts management, capturing of meter readings, revenue billing, collecting, Consumer accounts maintenance and accounting for revenue generated by the municipality and recover unpaid money from consumers in respect of municipal services rendered.*

As noted above the municipality is currently with an unfunded budget for the current year. One of the contributing reasons for this; was the lack of internal generated revenue and high dependence on grants for operations. The municipality is highly dependent on grants for operations.

The following is a summary of the revenue income for the 2016/17 financial year.

Revenue	30 June 2017
Government grants & subsidies	R 525 375 773
Service charges	R 19 541 684
Rental of facilities and equipment	R 56 310
Interest revenue	R 5 115 213
Other revenue	R 16 947 069
Actuarial gains	R 124 705
<b>Total revenue</b>	<b>R 567 160 754</b>

From the above, government grants & subsidies make up about 92% of the total revenue billed for the financial year.

As at 30 June the municipality had about R 187 908 062 worth of debtors outstanding which is considered very high for a municipality which cash strapped. The majority of the debtors are outstanding for a period exceeding 180 days.

## Supply Chain Management and Expenditure Management

The Supply Chain Management Policy and the SCM Delegations of the municipality were tabled to the Council in March 2016 and it was adopted. A team from the Provincial Treasury assisted the municipality with the following;

- Analysis of the irregular expenditure per transaction and make recommendations to Council and actions to be undertaken.
- The implementation of Standard Operating Procedures (SOPS).
- Training of end-user departments and SCM Practitioners
- SCM Policy on Infrastructure needs to be adopted by the Municipality. The Policy Model was issued by National Treasury.

However, there has recurring instances of non-compliance with the internal SCM procedures by user-department as evidenced by the irregular expenditure of **R 104 675 251.49** for the 2016/17 financial year. The municipality has reported the irregular expenditure to council for implementation of Section 32 of MFMA. As at 30 June 2016 the total irregular expenditure amounts to R 1 655 423 769.

The total outstanding creditors as at 30 June 2017 is **R 248 276 103**. A significant amount of that has been outstanding for more than 150 days. A creditors repayment plan is being implemented with due diligence performed on all creditors' claims for validity. This is in line with the strategy of ensuring that all valid creditors are included in the main financial system.

### 3.6 Service Delivery Targets and Priorities for 2017/2018

#### Preferred Performance Management Model

A performance management model can be defined as the grouping together of performance indicators, sometimes based on the type of indicator, into logical categories or groups (often called perspectives), as a means to enhance the ability of an organization to manage and analyse its performance. As such a model provides a common framework for what aspects of performance is going to be measured and managed. It further ensures that a balanced set of measures are employed that are not relying on only one facet of performance and therefore not presenting a holistic assessment of the performance of an organisation.

A number of performance models are available and any of them could be applied by the Municipality. The available models include the Municipal Scorecard, Balanced Scorecard and the Key Performance Area Model. The District Municipality has chosen the Key Performance model. In the said model all indicators are grouped together under the national key performance areas as per the Systems Act and the local key performance areas as per the Umkhanyakude District Municipality's IDP. The said Model therefore enables the District Municipality to assess its performance based on the national and its own local key performance areas.

The following KPAs inform the OPMS of the Municipality:

1. Municipal Transformation and Institutional Development
2. Basic Service Delivery
3. Local Economic Development
4. Municipal Financial Viability and Management
5. Good Governance and Public Participation
6. Cross Cutting Interventions

## **Priorities**

The following are the Nine (9) key priority areas of uMkhanyakude District Municipality:

1. Water
2. Sanitation/Sewerage;
3. Environmental Health;
4. Economics, Social or Community and Skills Development
5. Poverty eradication and Food Security;
6. Revenue enhancement;
7. Spatial planning and development;
8. Communication and Information Technology (IT); and
9. Good Governance and Clean Administration.

## KPA 1: MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT

INDEX	GOAL	OBJECTIVE	STRATEGY(IES)	KPI REF	KPI
A	Performance Management System	AA. To ensure effective Organizational Performance Management System (PMS)	Develop PMS Framework to inform Monitoring and Review processes	AA1	Date of developing PMS Framework
	Integrated Development Plan	AB. To ensure effective integrated development planning (IDP)	Review IDP as per legislation and KZN COGTA Guide	AB1	Date of reviewing IDP
	Human Resources Development	A1. To provide effective and efficient human resource management aimed at achieving a skilled workforce that is responsive to service delivery and change	Implementation of Human Resources Development Strategy	A1.1	Date of developing HRD Plan
			Council Adoption of Workplace Skills Plan	A1.2	Date of adopting WSP
					Percentage of budget spent on implementing WSP
			Implementation of Employment Equity Plan	A1.3	Date of EEP adoption by council
			Filling of critical vacant posts	A1.4	Number of Critical vacant posts filled
			Employment of people from EE target (designated group) employed in the three highest levels of management	A1.5	Number of people from EE target employed in the three highest levels of management
			Implementation of Records Management System	A1.6	Date of implementing Records Management System
			Implementation of ICT Framework	A1.7	Date of implementing ICT Framework
			Implementation of Health and Safety Risk Plan	A1.8	Date of implementing Health and Safety Risk Plan
			Implementation of administrative support services	A1.9	Date of implementing administrative support services

## KPA 2: BASIC SERVICE DELIVERY

INDEX	GOAL	OBJECTIVE	STRATEGY(IES)	KPI REF	KPI
<b>B</b>	<b>High quality infrastructure network</b>	<b>B1. To provide high quality infrastructure network to support improved quality of life and economic growth</b>	Improved access to basic services	B1.1	Percentage of households with access to a minimum of basic level of service for water provision
				B1.2	Percentage of households with access to a minimum of basic level of service for sanitation provision
			Reduced demand for new services	B1.3	% Reduction of Non-Revenue Water within the District
			Improved water services provision planning	B1.4	Develop and implement WSDP
				B1.5	Develop Sanitation Master Plan
				B1.6	Review of Water Services Bylaws and Policies
			Reduce water service interruptions	B1.7	Reduce the number of monthly service outages
				B1.8	Percentage of households earning less than R100 pm with access electricity



### KPA 3: LOCAL ECONOMIC DEVELOPMENT

INDEX	GOAL	OBJECTIVE	STRATEGY(IES)	KPI REF	KPI
C	District economic growth and employment opportunities	C1. To expand district economic output and increase quantity and quality of employment opportunities	Increase in business skills levels of the district labour force	C1.1	Number of business skills workshops organised
			Implement programmes to improved quality of employment opportunities and income levels of employed population	C1.2	Number of programmes implemented to improved quality of employment opportunities and income levels of employed population
			Creation of job opportunities	C1.3	Number of jobs created through local economic development initiatives and capital projects

#### KPA 4: FINANCIAL VIABILITY AND MANAGEMENT

INDEX	GOAL	OBJECTIVE	STRATEGY(IES)	KPI REF	KPI
<b>D</b>	<b>Improve Financial Management</b>	<b>D1. To implement prudent financial management practices</b>	Develop and implement cash flow management plans	D1.1	Date of Council approved cash flow management plan
				D1.2	Ratio of outstanding service debtors to service revenue
				D1.3	Debt Coverage Ratio
			Develop and implement cash and credit management plans	D1.4	Date of Council approved cash and credit management plan
				D1.5	Ratio of Cost Coverage Ratio
				D1.6	Percentage of municipality's budget spent on capital projects
			Develop a credible budget and report in accordance with the provisions of the MFMA	D1.7	Date of adopting Budget by Council
			Development of a Procurement Plan	D1.8	Date of development of a Procurement Plan
			Assessment of service providers performance	D1.9	Number of Council approved performance reports for service providers

## KPA 5: GOOD GOVERNANCE AND PUBLIC PARTICIPATION

INDEX	GOAL	OBJECTIVE	STRATEGY(IES)	KPI REF	KPI
E	Improve Quality of Life	<b>E1. To improve the quality of lives for people living within Umkhanyakude District</b>	To improve the quality of lives for people living within Umkhanyakude District	E1.1	Implementation of Special Programmes
				E1.2	Implementation of Environmental Health Management Programmes
	Excellence in Governance and Leadership	<b>E2. To ensure excellence in governance and leadership</b>	Implementation of Risk management programmes	E2.1	Implementation of Risk management programmes
			Implementation of programmes for committees responsible for oversight	E2.2	Implementation of programmes for committees responsible for oversight
			Implementation of Public Participation Strategy	E2.3	Implementation of Public Participation Strategy
			Implementation of IGR programmes	E2.4	Implementation of IGR programmes
			Implementation of Batho Pele Principles	E2.5	Implementation of Batho Pele Principles

## KPA 6: CROSS CUTTING INTERVENTIONS

INDEX	GOAL	OBJECTIVE	STRATEGY(IES)	KPI REF	KPI
F	Integrity and Quality of Physical Environment	F1. To ensure integrity and quality of physical environment underpinned by a coherent spatial development pattern	Implementation of Environmental Management Programmes	F1.1	Number of programmes implemented
	Functional Disaster Management Unit	F2. To ensure functional and responsive Disaster Management Unit	Development of Disaster Management Framework Implementation Plan	F2.1	Date of developing Disaster Management Implementation Plan

## CHAPTER 4: ANNUAL PERFORMANCE REPORT

This section will indicate, in more detail, the performance of the Municipality for the financial year and makes reference to the supporting documentation, including the Municipal Scorecard. The performance reporting of the Municipality in this section is done in line with the 6 national KPA's and is the focus of the MSA Section 46 requirements and therefore reflects the performance of the Municipality for the financial year, comparisons to performance of the previous financial year and measures taken to improve performance.

### Background to municipal scorecard

- The Municipal Scorecard **Appendix 1** approach reflects the 6 national KPA's and local priorities and enables a wider assessment of how the municipality is performing.
- The performance report is based on measures included within the Municipal Scorecard. This incorporates 39 priority measures selected from the IDP. The criteria used reflect factors such as previous performance levels, comparative performance and budget implications.

This section represents overview of organisational performance for 2016/2017 financial year:

KPAs	Number of Targets	Not Achieved	No Budget	Target Achieved	Target Exceeded
Municipal Transformation	11	8	2	1	0
Basic Service Delivery	4	2	0	0	2
LED	5	1	3	0	1
Financial viability	9	5	0	4	0
Good Governance	6	3	0	3	0
Cross Cutting	4	0	0	4	0
Total	39	19 (48,72%)	5 12,82%	12 (30,77%)	3 (7,69%)

- 39 organisational targets were selected to be reported on through SDBIP;
- 24 targets were not achieved (including 5 targets that were without budget), representing **61,54%**
- 15 targets were achieved (including 3 targets for water, sanitation and job creation that were exceeded), which represented **38,46%** for 2016/2017 financial year
- KPA that contributed immensely to targets not achieved were Municipal Transformation (91% not achieved)

## 4.1 Performance Comparison with Previous Financial Years

Table 4: Comparative Performance Figures

Details	Financial Years		
	2016-2017	2015-2016	2014-2015
Target achieved (%)	38,46	40,91	50,82
Not achieved (%)	61,54,33	40,91	19,67

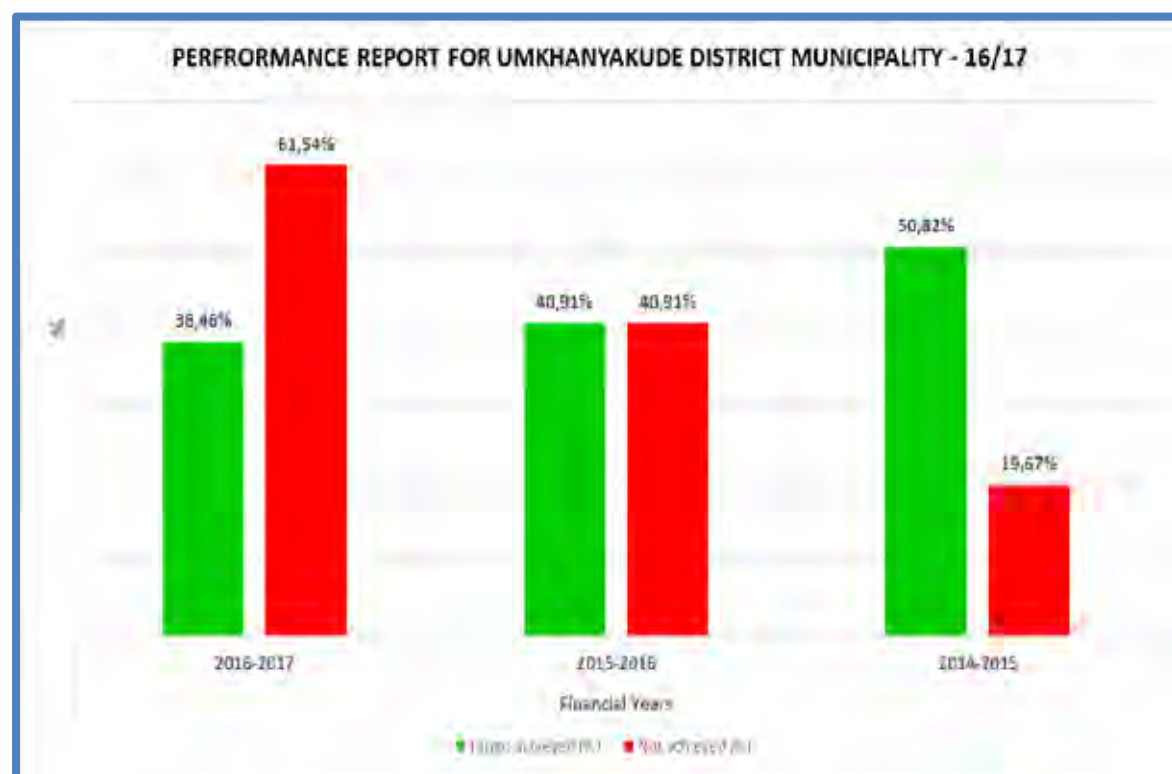


Figure 1: Comparative Targets Data

- Targets achieved slightly declined from 40,91% in 2015/2016 to 38,77% in 2016/2017, which is a 6% change downwards
- Targets not achieved increased from 40,91% in 2015/2016 to 61,54% in 2016/2017, which is a 50% change upwards

## 4.2 External Service Provider Performance Assessment

The monitoring of the service provider performance is ensured through the signing of the Service Level Agreement. It is currently being done by user department levels.

Period: 2016/2017

Assessment Key	
Good (G)	The service has been provided at acceptable standards and within the time frames stipulated in the SLA/Contract
Satisfactory (S)	The service has been provided at acceptable standards and outside of the timeframes stipulated in the SLA/Contract
Poor (P)	The service has been provided below acceptable standards

Bid Number	Name of external Service Provider	Date Contract Awarded	Service provided in terms of the SLA	Value of project	Comparison with previous year 2015/2016		Current Financial Year 2016/2017		Assessment of Service Providers Performance		
					Target	Actual	Target	Actual	G	S	P
SCMU 006/2014/2015	WSSA	28 May 2015	MANAGEMENT, OPERATION & MAINTENANCE OF WATER & WASTEWATER TREATMENT	R 48,806,749.43							ü
SCMU 011/2014/2015	Shula Construction	02 December 2015	JOZINI REGIONAL CWS - CONSTRUCTION OF 4.6 KM LONG 800/700/200MM DIAMETER WELDED STEEL PIPELINES AND 100KL ELEVATED TANK	R22 266 070.22		R2 185 505.12	R30 000 000	R10 769 606.35	ü		
SCMU 003/2015/2016	Bosch Munitech	25 November 2015	MTUBATUBA EMERGENCY WATER SUPPLY PROJECT - DESIGN AND INSTALLATION OF SUBSURFACE WATER ABSTRACTION AT UMFOLOZI RIVER AND ASSOCIATED WORKS	R 11,158,146.72			R11 158 146.72	R 8 929 034.72	ü		
2011 MIGFDC27195769	City Park Trading 305 CC	08 July 2013	KWAJOBE WATER RETICULATION PHASE 2	R14 482 690.53			R000	R 000			ü

Bid Number	Name of external Service Provider	Date Contract Awarded	Service provided in terms of the SLA	Value of project	Comparison with previous year 2015/2016		Current Financial Year 2016/2017		Assessment of Service Providers Performance		
					Target	Actual	Target	Actual	G	S	P
	Veolia		Shemula water upgrade	R67 466 446.80		R3 531 415.86	R000	R000			ü
	LR Civils		Shemula water upgrade								ü
	SBT civils		Shemula water treatment works	R34 112 136.05		R14 862 146.07					ü
											ü
SCMU 035/2012/2013	ICON CONSTRUCTION	26 September 2013	Shemula water treatment works	R43 824 344.11		R3 429 728.91	R15 000 000	R000	ü		
SCMU 137/2012	SOMKHANDA PLANT HIRE	15 November 2013	Mpukunyoni CWSS Remedial Works and upgrade	R8 920 264.94		R375 893.6	R000	R000		ü	
SCMU 007/2013/2014	EYETHU TRANSLOGGE & PLANT HIRE	5 February 2014	Mkuze Water Treatment Works	R37 909 537.11		R000	R000	R000			ü
SCM 136/1	MKT CONSTRUCTION	01 AUGUST 2012	Construction of Hlabisa Mandlakazi Water Supply Scheme Secondary Bulk and Reticulation	R27 172 904.10		R3 598 547.6		R000			ü
SCM136/2	ZIQOOE CONSTRUCTION	01 AUGUST 2012	Construction of Hlabisa Mandlakazi Water Supply Scheme Secondary Bulk and Reticulation	R 25 730 553.14		R000	R000	R000			ü
SCM 136/3	MAGEDLA CONSTRUCTION	01 AUGUST 2012	Construction of Hlabisa Mandlakazi Water Supply Scheme Secondary Bulk and Reticulation	R12 007 323.00		R1 807 321	R000	R000	ü		
	CONRITE		Top Structures VIP toilet supplier	R39 318 600.00		R7 770 924.00				ü	
SCM 136/5	MAKHATHINI PROJECTS	01 AUGUST 2012	Construction of Hlabisa Mandlakazi Water Supply Scheme Secondary Bulk and Reticulation	R33 892 158.87		R11 579 609		R1 289 901.74	ü		
	NEW HEIGHTS CONSTRUCTION		Hluhluwe Water Phase 1	R38 867 955.00		R460 692.76		R838 983.99			ü
	MAKHETHA DEVELOPMENT CONSULTANTS		Ingwavuma VIP Sanitation	R142 588 855.43		R31 231 470.96		R21 589 187.12	ü		



Bid Number	Name of external Service Provider	Date Contract Awarded	Service provided in terms of the SLA	Value of project	Comparison with previous year 2015/2016		Current Financial Year 2016/2017		Assessment of Service Providers Performance		
					Target	Actual	Target	Actual	G	S	P
	JEFFERSON AND GREEN		Manguzi Star of the Sea Water Scheme	R148 948 612.24		R4 817 811.93		R7 809 512.01		ü	
	UWP		Mtubatuba VIP Sanitation Project	R95 778 068.00		R1 599 864.12		R000	ü		
			Rudimentary Program 6 UKDM	R28 500 000.00		R26 461 274.65		R2 038 725.35		ü	
			Rehabilitation of existing Shemula Water Scheme	R27 236 880.00		R1 491 234.00		R25 260 361.23		ü	
			Rehabilitation of existing Jozini Water Scheme	R 5 146 41.00		R1 924 062.26		R3 222 353.63		ü	
	ZIYANDA CONSULTING		Thembaletu Sanitation	R100 918 806.75		R302 401.08		R1 246 704.66		ü	
			WCWDM Programme within UKDM	R299 119 350.73		R49 866 191.33		R46 795 895.47	ü		
			Refurbishment & Upgrades of WWTW and sewer networks	R 28 500 000.00		R000		R15 450 373.85			ü
			Bhoboza to KwaMsane GravityMain Project (Drought)	R 3 912 792.00							ü
SCMU 003/2016/2017	Pro - Secure	28 <sup>th</sup> February 2017	Security Provision	R 11,662,812.32	R 5 831 406.15	R485,950.51	R5 831 406.15	R1088 181.02	ü		
SCMU 004/2016/2017	Fleet Horizon	September 2015/2016 Financial Year	Repairs, Fuel and Oil	R 15 017,815.40	R 5 75564.16	R 575564.16	R 625 742.30	R1 251 484.02			ü
SCMU 012/2012	Nashua	30 <sup>th</sup> October 2016	Office Automation	R 2 700.785.52	R 75021.82	R 675 196.38	R 75021.82	R 150 043.64			ü
N/A	Telkom	28 May 2015	Internet	R 91 573.20		R 91 573.20	R 91 573.20.0	R 15 262.20		ü	
N/A	Telkom	01 April 2013	VPN	R 600 000.00	R 600 000.00	R 600 000.00	R 600 000.00	R100,000	ü		
N/A	Dc Data	08 December 2016	Firewall Security Maintenance	R 166 560.00	R 166 560.00	R 166 560.00	R 166 560.00	R 27 760.00	ü		
N/A	Camelsa	02 August 2016	Pastel system support	R 919 800.00	R 919 800.00	R 919 800.00	R 919 800.00	R 153 300.00		ü	
N/A	TTECH Technologies	20 April 2017	Website Hosting	R 107 820.00	R 107 820.00	R 107 820.00	R107 820.00	R 17 970.00	ü		

## 4.3 Key Areas to Note

### Improving Performance

- There was improvement in a few areas such as delivery of basic sanitation, water services and job creation
- In the absence of WSDP, estimated figures from STATSSA (2016 Community Survey) were used to report on backlog figures which indicated that out of **151 245** households, **31,57%** still had no access to potable water and **43,42%** still had no access to basic sanitation services.
- Overall performance of the Municipality was unsatisfactory as **61,54%** of targets were not achieved
- It has been a challenging financial year for the Municipality in that almost all departments except for Community Services, Planning and Economic Development were led by acting incumbents which meant that at least every three months performance contracts had to be renewed for those in acting capacity
- Plans are in place to recruit incumbents who will be in long-term contracts with the Municipality
- The development of WSDP has been budgeted for in 2017/2018 and this would improve infrastructure planning for the entire District
- The implementation of mSCOA will bring about prudent financial planning and management in the entire business of the Municipality

*See Appendix 1 for Organisational Performance Report.*

#### 4.4 Report on Long-Term Contracts

Name of Contractor	Service Provided	Contract Duration		Value
		Start	End	
Sinethemba JV Klus	Water Provision	25/07/2017	40 weeks	R 29 090 283,02
LR Civils (Pty) Ltd	Water Provision	15 Sep 2016	12 months	R 26 111 543,54
Sunset Beach Trading 529 cc	Water Provision	01 Sep 2016	12 months	R 31 790 552,93
WJ Bou and Siviele t/a WJ Construction	Water Provision	05 Sep 2016	10 months	R 29 669 784,40
Pro - Secure (Pty) Ltd	Security	01 Mar 2017	24 months	R 10 230 537,12
Fleet Horizon Solutions (Pty) Ltd	Fleet Management	01 Oct 2016	36 months	R 15 017 815,40
Ernst and Young Advisory Services (Pty) Ltd	Internal Auditing	01 May 2017	36 months	R 1 200 000,00
EOH Roads & Highways/ EOH Industrial	Rural Roads Assessment	01 Jul 2017	36 months	R 6 509 055,11
Ibutho Projects (Pty) Ltd	Water Provision	28 Jun 2017	8 months	R 21 530 022,74
UPWP Consultants	Water Provision	Jan 2012	Open	R 36 596 478,03
Royal Hoskoning DHV	Water Provision	Jan 2012	Open	R 42 369 730,94
Makhetha Development	Water Provision	Jan 2012	Open	R 10 596 060,60
GIBB Engineering	Water Provision	Jan 2012	Open	R 29 232 788,57
ZIYANDA Consulting	Water Provision	Jan 2012	Open	R 7 206 318,43

## CHAPTER 5: FINANCIAL PERFORMANCE REPORT

### Statement of Financial Performance

DC27 Umkhanyakude - Statements of Financial Performance							
Description	2015/16	Current Year 2016/17			2016/17 Variance		Notes
R Thousands	Audited Outcome	Original Budget	Adjusted Budget	Actual	Original Budget %	Adjustments Budget %	
<b>Financial Performance</b>							
Property rates	–	–	–	–	–	–	
Service charges	23 334	36 668	32 429	15 733	57%	51%	
Investment revenue	7 215	3 772	4 000	5 115	-36%	-28%	
Transfers recognised - operational	276 570	307 981	305 465	276 570	10%	9%	
Other own revenue	34 423	32 369	37 211	222 693	-588%	-498%	
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>341 542</b>	<b>380 789</b>	<b>379 104</b>	<b>520 112</b>			
Employee costs	127 487	127 745	128 032	133 969	-5%	-5%	
Remuneration of councillors	6 446	7 459	7 459	6 874	8%	8%	
Depreciation & asset impairment	43 268	28 204	28 204	4 490	84%	84%	
Finance charges	2 226	1 049	2 120	1 339	-28%	37%	
Materials and bulk purchases	106 819	100 306	138 855	190 482	-90%	-37%	
Contracted services	13 432	–	–	–	#DIV/0!	#DIV/0!	
Transfers and grants	–	5 558	–	–	0%	0%	
Other expenditure	119 732	104 487	74 435	69 076	34%	7%	
<b>Total Expenditure</b>	<b>419 409</b>	<b>374 808</b>	<b>379 105</b>	<b>406 230</b>			
<b>Surplus/(Deficit)</b>	<b>(77 867)</b>	<b>5 982</b>	<b>(0)</b>	<b>113 881</b>			
Transfers recognised - capital	222 693	267 517	284 442	222 693	17%	22%	
Contributions recognised - capital & contributed assets	–	–	–	–	–	–	
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>							
Share of surplus/ (deficit) of associate	144 826	273 499	284 442	336 574	–	–	
<b>Surplus/(Deficit) for the year</b>							
<b>Capital expenditure &amp; funds sources</b>							
<b>Capital expenditure</b>	<b>222 693</b>	–	–	<b>222 693</b>	#DIV/0!	#DIV/0!	
Transfers recognised - capital	222 693	–	–	222 693	#DIV/0!	#DIV/0!	
Public contributions & donations	–	–	–	–	–	–	
Borrowing	–	–	–	–	–	–	
Internally generated funds	–	–	–	–	–	–	
<b>Total sources of capital funds</b>					#DIV/0!	#DIV/0!	
<b>Financial position</b>							
Total current assets	272 863	(34 543)	102 321	269 704	881%	-164%	
Total non current assets	1 626 927	1 641 756	1 641 936	1 893 935	-15%	-15%	
Total current liabilities	273 517	64 876	66 048	369 545	-470%	-460%	
Total non current liabilities	13 171	7 751	7 751	13 412	-73%	-73%	
Community wealth/Equity	1 648 102	1 683 807	1 744 257	1 780 682	(0)	(0)	
<b>Cash flows</b>							
Net cash from (used) operating	236 619	295 009	275 637	235 747	20%	14%	
Net cash from (used) investing	(221 165)	(267 517)	(284 442)	(227 583)	15%	20%	
Net cash from (used) financing	(836)	(711)	(1 402)	(854)	-20%	39%	
<b>Cash/cash equivalents at the year beginning</b>	<b>12 696</b>	<b>(54 695)</b>	<b>22 317</b>	<b>27 315</b>			
<b>Cash/cash equivalents at the year end</b>	<b>27 315</b>	<b>(27 913)</b>	<b>12 110</b>	<b>34 626</b>	<b>224%</b>	<b>-186%</b>	
<b>Cash backing/surplus reconciliation</b>							
Cash and investments available	27 315	(79 476)	(79 476)	34 626	144%	144%	
Application of cash and investments	–	31 564	29 930	–	100%	100%	
<b>Balance - surplus (shortfall)</b>	<b>–</b>	<b>(111 040)</b>	<b>(109 406)</b>	<b>–</b>	<b>100%</b>	<b>100%</b>	
<b>Asset management</b>							
Asset register summary (WDV)	–	684 928	685 109	–			
Depreciation & asset impairment	36 348	28 204	28 204	–	100%	100%	
Renewal of Existing Assets	–	–	–	–	#DIV/0!	#DIV/0!	
Repairs and Maintenance	33 218	35 614	35 614	109 552	-208%	-208%	

## Financial Performance of Operational Services

DC27 Umkhanyakude Financial Performance of Operational Services							
	Dec-16	Current Year 2016/17			2016/17 Variance		Notes
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Actual	Original Budget %	Adjustments Budget %	
<b>Expenditure - Standard</b>							
<i>Governance and administration</i>	419 409	143 916	155 962	406 230			
Executive and council	419 409	19 975	23 799	406 230	-95%	-94%	
Budget and treasury office	-	86 628	89 004	-	#DIV/0!	#DIV/0!	
Corporate services	-	37 313	43 159	-	#DIV/0!	#DIV/0!	
<i>Community and public safety</i>	-	18 184	18 928	-	#DIV/0!	#DIV/0!	
Community and social services	-	18 184	18 928	-	#DIV/0!	#DIV/0!	
Sport and recreation	-	-	-	-	-	-	
Public safety	-	-	-	-	-	-	
Housing	-	-	-	-	-	-	
Health	-	-	-	-	-	-	
<i>Economic and environmental services</i>	-	55 520	28 533	-	#DIV/0!	#DIV/0!	
Planning and development	-	55 520	28 533	-	#DIV/0!	#DIV/0!	
Road transport	-	-	-	-	-	-	
Environmental protection	-	-	-	-	-	-	
<i>Trading services</i>	-	157 187	175 681	-	#DIV/0!	#DIV/0!	
Electricity	-	23 042	36 930	-	#DIV/0!	#DIV/0!	
Water	-	131 684	136 290	-	#DIV/0!	#DIV/0!	
Waste water management	-	2 461	2 461	-	-	-	
Waste management	-	-	-	-	-	-	
<i>Other</i>	-	-	-	-	-	-	
<b>Total Expenditure - Standard</b>	419 409	374 807	379 104	406 230	-8%	-7%	

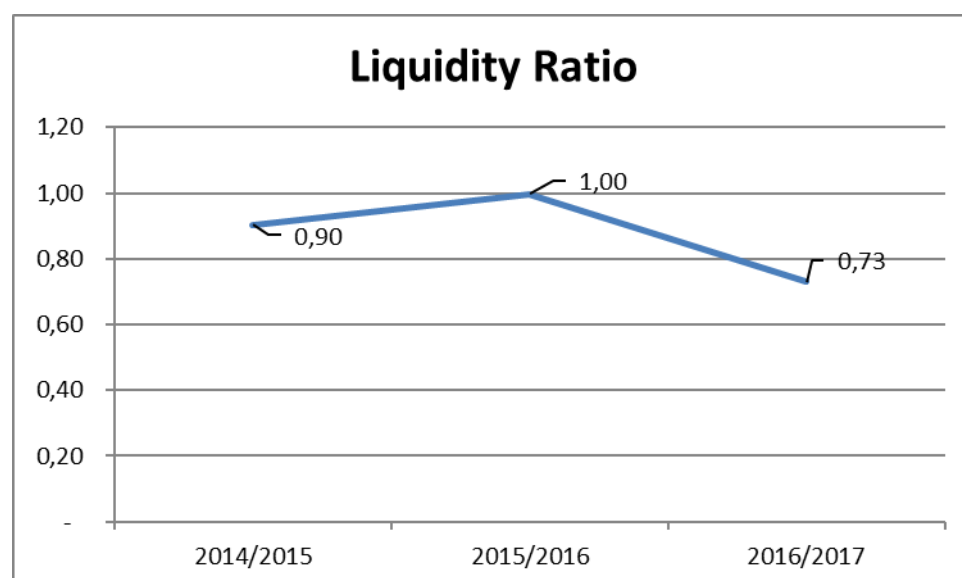
## Grant Performance

DC27 Umkhanyakude - Grant Performance							
Description	Dec-16	Current Year 2016/17			2016/17 Variance		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Actual	Original Budget %	Adjustments Budget %	Notes
RECEIPTS:							
<u>Operating Transfers and Grants</u>							
National Government:	232 002	307 581	305 065	305 065			
Local Government Equitable Share	226 252	292 146	292 146	292 146	100%	100%	
Finance Management	1 250	1 250	1 250	1 250	100%	100%	
Municipal Systems Improvement	934	-	-	-	-	-	
Rural Asset Management	2 440	2 516	-	-	-	-	
Expanded Public Works Programme( EPWP)	1 126	1 293	1 293	1 293	-	-	
Other transfers/grants [insert description]	-	10 376	10 376	10 376	100%	100%	
Provincial Government:	-	400	400	400			
Shared Service Grant	-	400	400	400	100%	100%	
	-	-	-	-	-	-	
Other transfers/grants [insert description]	-	-	-	-	-	-	
	-	-	-	-	-	-	
Total Operating Transfers and Grants	232 002	307 981	305 465	305 465	99%	100%	
*The municipality depends mainly on government grants and subsidies to be fully functional, thus resulting in high allocation of equitable share.							

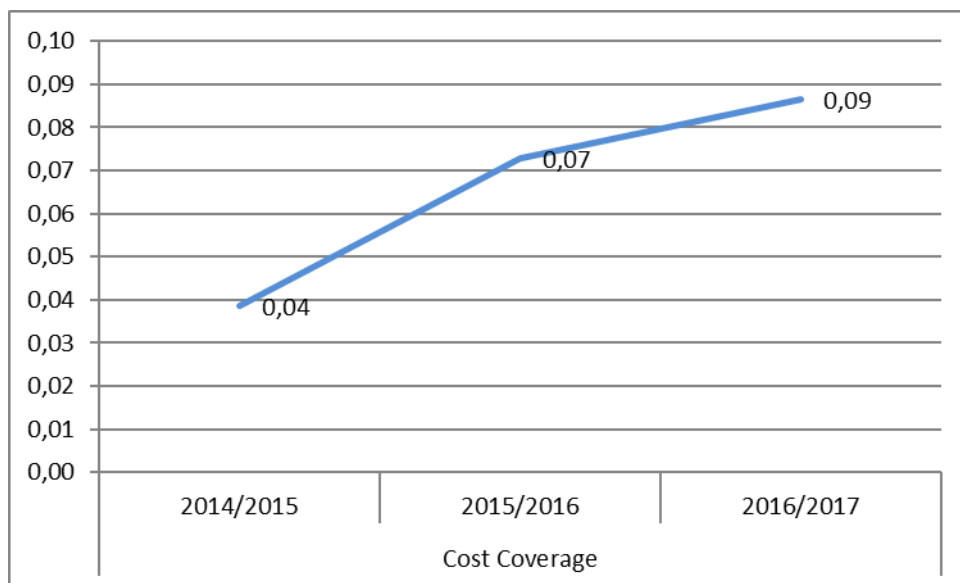
## Repairs and Maintenance

DC27 Umkhanyakude - Repairs and Maintenance 2016/17					
Description	Dec-16	Current Year 2016/17			
	Audited Outcome	Original Budget	Adjusted Budget	Actual	Budget Variance %
Repairs and Maintenance	R 33 218 155,00	R 35 613 729,00	R 57 025 010,00	R 109 552 277,00	-92%
*Over spending on repairs and maintenance is as a result of infrastructure assets that require regular maintenance because of their ageing.					

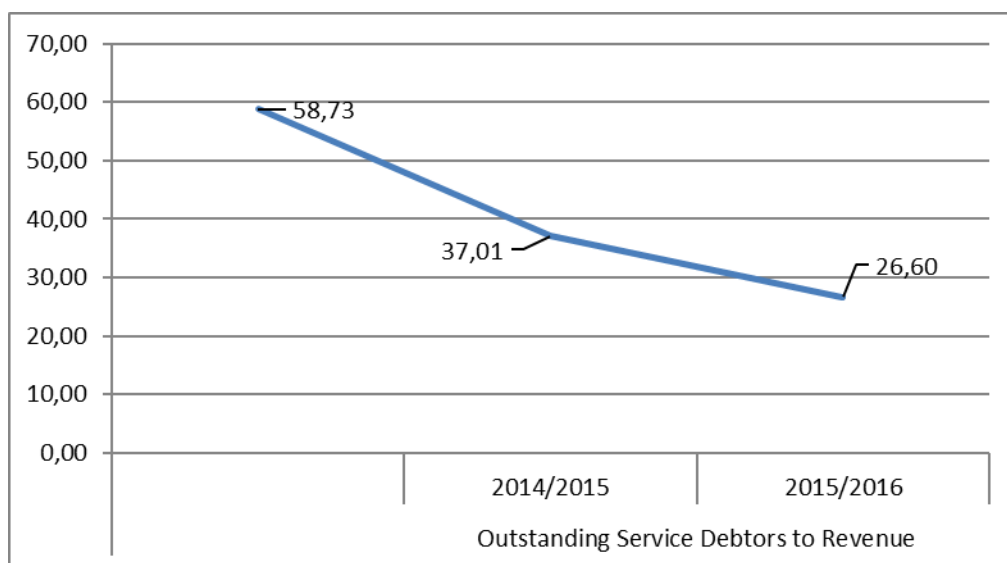
## Liquidity Ratio



## Cost Coverage

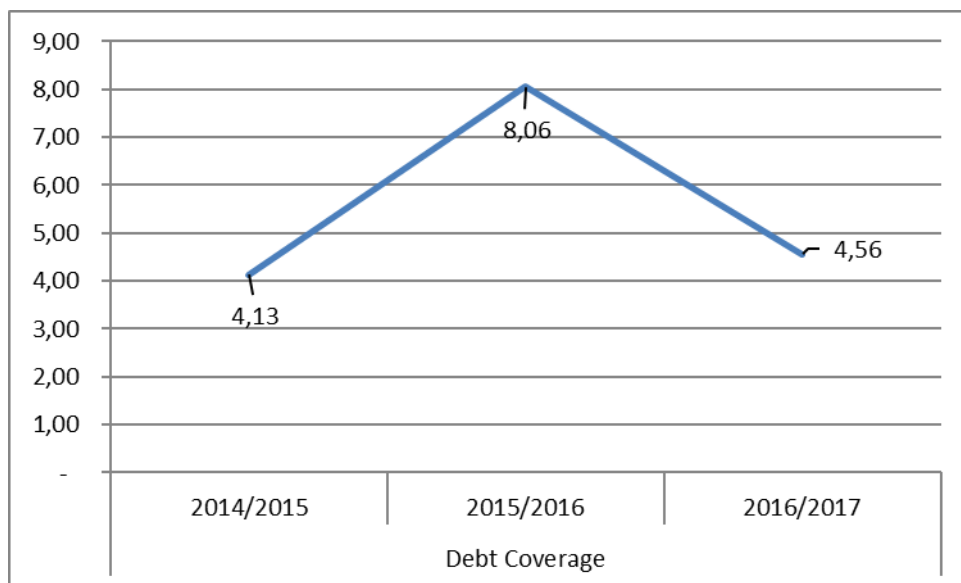


## Outstanding Service Debtors to Revenue

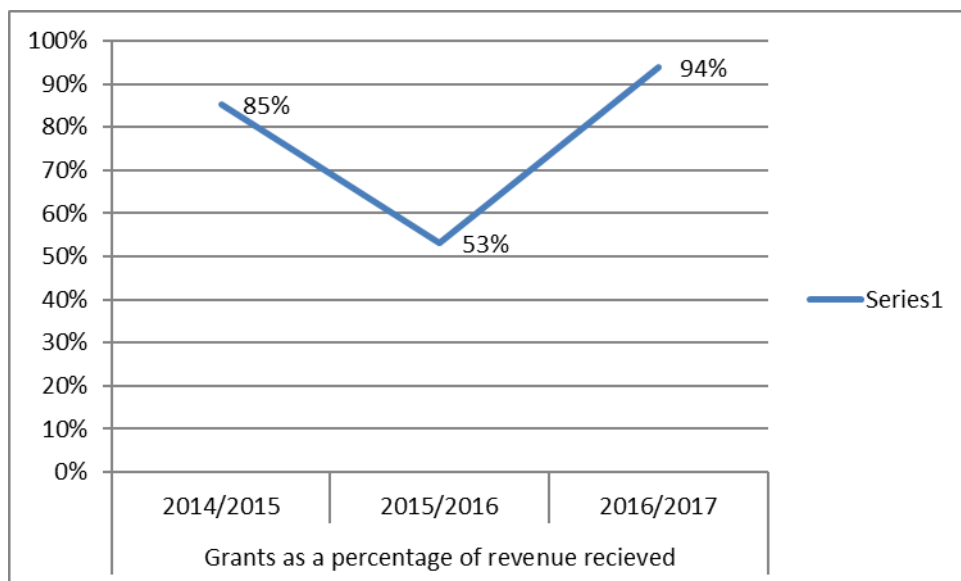




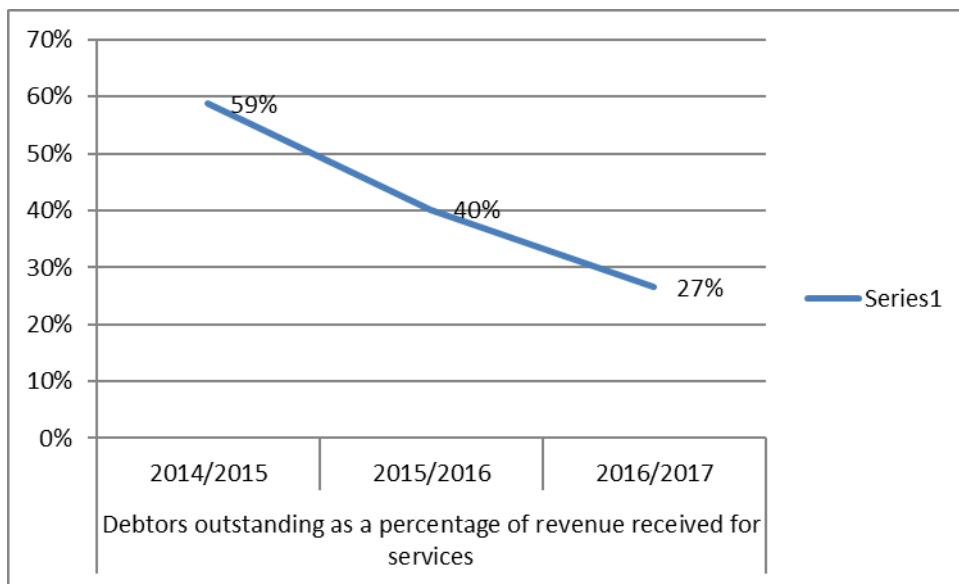
## Debt Coverage



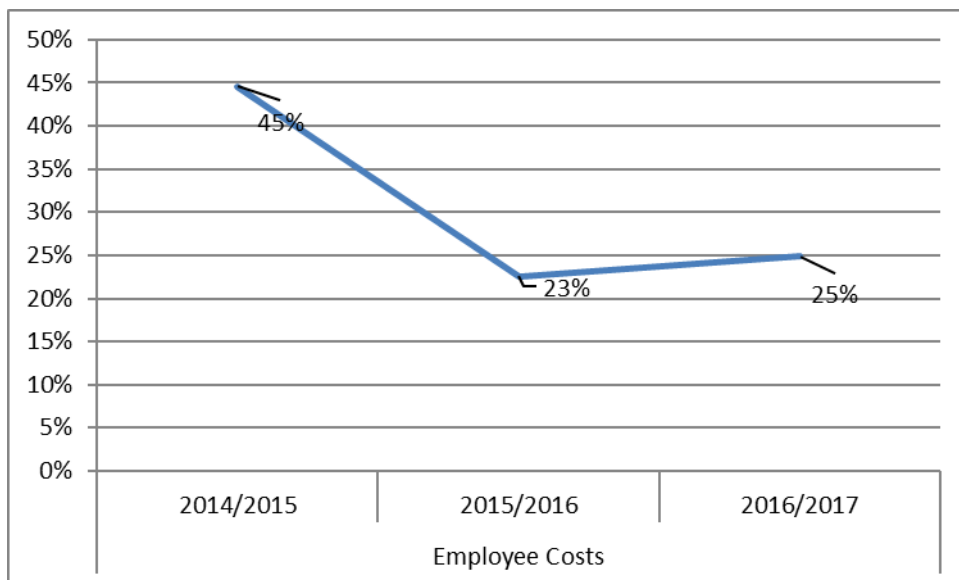
## Grants as Percentage of Revenue Received



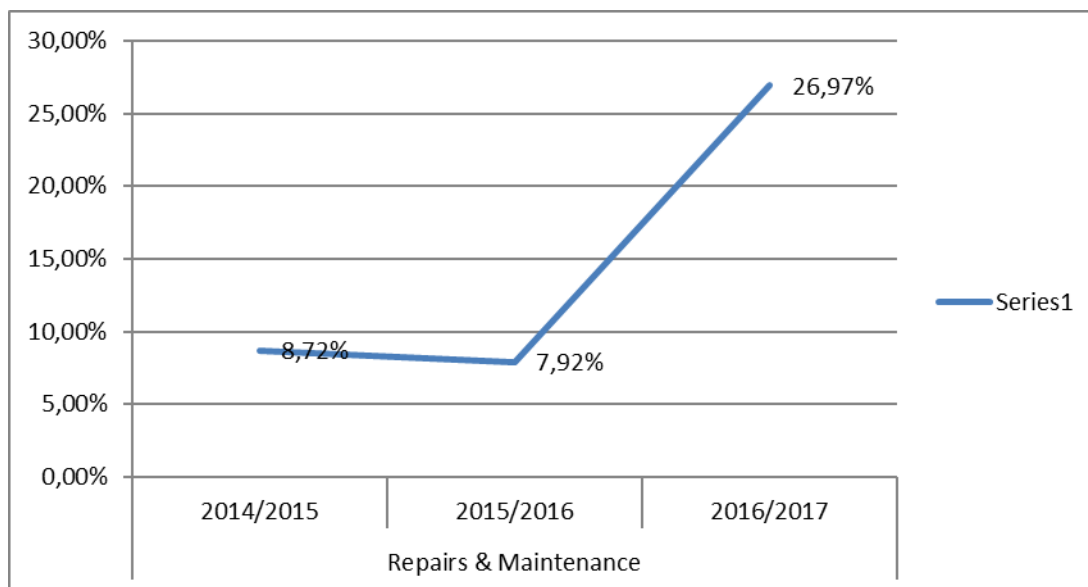
### Debtors outstanding as a percentage of revenue received for services



### Employee Cost as Percentage of Revenue



## Repairs and Maintenance as Percentage of Revenue



ANNEXURE A - CONSOLIDATED AFS FOR THE YEAR ENDED 30 JUNE 2017

ANNEXURE B - AUDITOR GENERAL'S REPORT – 2016/2017

ANNEXURE C - AUDIT ACTION PLAN – 2017/2018

ANNEXURE D - AUDIT COMMITTEE REPORT – 2016/2017

ANNEXURE E - ANNUAL REPORT FOR UMHLOSINGA DEVELOPMENT AGENCY – 2016/2017

APPENDIX 1 – ORGANISATIONAL PERFORMANCE REPORT – 2016/2017

# **ANNEXURE A**

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017



Umkhanyakude District Municipality and its Municipal Entity  
Consolidated Annual Financial statements  
for the year ended 30 June 2017  
Auditor-General South Africa

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## General Information

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<b>Legal form of entity</b>	DC27 - Umkhanyakude District Municipality
<b>Mayoral committee</b>	Cllr Mkhombo T.S. (Mayor) Cllr Hlabisa F.C. (Deputy Mayor) Cllr Msane MS (Speaker) Cllr Moodley G.P. (Exco Member) Cllr Ngcobo M.S. (Exco Member) Cllr Zungu M.C. (Exco Member)
<b>Councillors</b>	Cllr Gina MA Cllr Gumede KS Cllr Gumede RH Cllr Gumede VE Cllr Gumede VM Cllr Hlabisa VF Cllr Khoza SJ Cllr Khumalo CT Cllr Mabika DP Cllr Mabika AV Cllr Madlopha PB Cllr Mathenjwa BS Cllr Mdaka SF Cllr Mhlongo ZM Cllr Mpontshane KN Cllr Mthembu MJ Cllr Mthethwa N.R Cllr Mthethwa NS Cllr Mthethwa SP Cllr Myeni SR Cllr Mzinyane SW Cllr Ngubane JG Cllr Sithole MB Cllr Zulu NR Cllr Zuma NE
<b>Grading of local authority</b>	Grade 4
<b>Chief Finance Officer (CFO)</b>	Dludla N.T
<b>Accounting Officer</b>	Bukhosini S.E
<b>Registered office</b>	Harlingen No. 13433 Kingfisher Road Mkuze 3965
<b>Postal address</b>	P.O. Box 449 Mkuze
<b>Primary Bankers</b>	ABSA
<b>Auditors</b>	Auditor-General South Africa

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Index

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

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 11
Accounting Policies	12 - 31
Notes to the Consolidated Annual Financial Statements	32 - 70

### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Officer's Responsibilities and Approval

---

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the consolidated annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the consolidated annual financial statements and was given unrestricted access to all financial records and related data.

The consolidated annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the economic entity and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The municipality is wholly dependent on the grant allocations through Division of Revenue Act (DORA) for continued funding of operations. The consolidated annual financial statements are prepared on the basis that the municipality is a going concern and that the Umkhanyakude District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the economic entity's consolidated annual financial statements. The consolidated annual financial statements have been examined by the economic entity's external auditors and their report is presented on page 4.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the financial statements below are within the upper limits of the Framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The consolidated annual financial statements set out on pages 4 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2017 and were signed on its behalf by:

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**S.E Bukhosini**  
**Accounting Officer**

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2017	2016	2017	2016
<b>Assets</b>					
Current Assets					
Inventories	3	124 845 735	136 923 807	124 845 735	136 923 807
Receivables from exchange transactions	4	65 721 398	66 039 652	57 788 337	58 691 167
Other receivables from exchange transactions	5	10 030 411	11 497 680	10 030 411	11 497 680
VAT receivable	6	51 610 577	46 015 647	50 706 642	45 501 922
Cash and cash equivalents	7	36 797 979	32 523 410	34 626 017	27 315 140
		<b>289 006 100</b>	<b>293 000 196</b>	<b>277 997 142</b>	<b>279 929 716</b>
Non-Current Assets					
Property, plant and equipment	8	1 828 746 406	1 625 968 011	1 821 850 101	1 625 350 719
Intangible assets	9	301 656	385 802	301 656	385 802
Heritage assets	10	586 000	586 000	586 000	586 000
		<b>1 829 634 062</b>	<b>1 626 939 813</b>	<b>1 822 737 757</b>	<b>1 626 322 521</b>
Non-Current Assets		1 829 634 062	1 626 939 813	1 822 737 757	1 626 322 521
Current Assets		289 006 100	293 000 196	277 997 142	279 929 716
<b>Total Assets</b>		<b>2 118 640 162</b>	<b>1 919 940 009</b>	<b>2 100 734 899</b>	<b>1 906 252 237</b>
<b>Liabilities</b>					
Current Liabilities					
Payables from exchange transactions	11	248 526 705	248 707 528	246 777 031	247 955 799
Consumer deposits	12	1 377 510	1 193 053	1 377 510	1 193 053
Unspent conditional grants and receipts	13	72 995 711	34 385 211	64 576 002	24 101 775
Current portion of defined benefit plan obligation	14	534 000	223 000	534 000	223 000
Current portion of loans	15	1 003 312	1 016 484	1 003 312	1 016 484
Current tax payable	31	-	44 035	-	-
		<b>324 437 238</b>	<b>285 569 311</b>	<b>314 267 855</b>	<b>274 490 111</b>
Non-Current Liabilities					
Defined benefit plan obligation	14	6 512 000	5 946 000	6 512 000	5 946 000
Non-current loans	15	6 207 357	7 048 086	6 207 357	7 048 086
		<b>12 719 357</b>	<b>12 994 086</b>	<b>12 719 357</b>	<b>12 994 086</b>
Non-Current Liabilities		12 719 357	12 994 086	12 719 357	12 994 086
Current Liabilities		324 437 238	285 569 311	314 267 855	274 490 111
<b>Total Liabilities</b>		<b>337 156 595</b>	<b>298 563 397</b>	<b>326 987 212</b>	<b>287 484 197</b>
Assets		2 118 640 162	1 919 940 009	2 100 734 899	1 906 252 237
Liabilities		(337 156 595)	(298 563 397)	(326 987 212)	(287 484 197)
<b>Net Assets</b>		<b>1 781 483 567</b>	<b>1 621 376 612</b>	<b>1 773 747 687</b>	<b>1 618 768 040</b>
Accumulated surplus		1 781 483 567	1 621 376 612	1 773 747 687	1 618 768 040

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2017	2016	2017	2016
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	16	19 541 684	22 725 798	19 541 684	22 725 798
Rental of facilities and equipment	17	56 310	66 939	56 310	66 939
Interest income	18	5 305 018	7 323 413	5 115 213	7 214 593
Other income	19	16 245 792	34 530 556	16 048 647	34 355 684
Actuarial gains	14	124 705	-	124 705	-
<b>Total revenue from exchange transactions</b>		<b>41 273 509</b>	<b>64 646 706</b>	<b>40 886 559</b>	<b>64 363 014</b>
<b>Revenue from non-exchange transactions</b>					
Government grants & subsidies	20	556 436 934	522 463 700	525 375 773	499 263 523
		41 273 509	64 646 706	40 886 559	64 363 014
		556 436 934	522 463 700	525 375 773	499 263 523
<b>Total revenue</b>		<b>597 710 443</b>	<b>587 110 406</b>	<b>566 262 332</b>	<b>563 626 537</b>
<b>Expenditure</b>					
Employee related costs	21	(140 608 444)	(132 871 616)	(133 969 150)	(127 487 292)
Remuneration of councillors	22	(6 874 314)	(6 445 539)	(6 874 314)	(6 445 538)
Depreciation and amortisation	23	(37 911 260)	(36 515 366)	(37 751 156)	(36 347 769)
Finance costs	24	(1 423 952)	(2 352 023)	(1 339 122)	(2 225 598)
Debt Impairment	25	(5 262 800)	(18 465 364)	(5 262 800)	(18 465 364)
Repairs and maintenance	26	(70 857 776)	(33 221 518)	(70 857 085)	(33 218 155)
Bulk purchases	27	(80 929 566)	(73 600 999)	(80 929 566)	(73 600 998)
Contracted services	28	(46 426 932)	(31 035 955)	(23 264 678)	(13 431 591)
General Expenses	29	(47 308 449)	(118 412 583)	(51 034 815)	(119 731 913)
<b>Total expenditure</b>		<b>(437 603 493)</b>	<b>(452 920 963)</b>	<b>(411 282 686)</b>	<b>(430 954 218)</b>
		-	-	-	-
Total revenue		597 710 443	587 110 406	566 262 332	563 626 537
Total expenditure		(437 603 493)	(452 920 963)	(411 282 686)	(430 954 218)
<b>Operating surplus</b>		<b>160 106 950</b>	<b>134 189 443</b>	<b>154 979 646</b>	<b>132 672 319</b>
Operating surplus		160 106 950	134 189 443	154 979 646	132 672 319
		-	-	-	-
<b>Surplus before taxation</b>		<b>160 106 950</b>	<b>134 189 443</b>	<b>154 979 646</b>	<b>132 672 319</b>
Taxation	30	-	44 035	-	-
Operating surplus/deficit		-	-	-	-
Surplus before taxation		160 106 950	134 189 443	154 979 646	132 672 319
Taxation		-	44 035	-	-
<b>Surplus for the year</b>		<b>160 106 950</b>	<b>134 145 408</b>	<b>154 979 646</b>	<b>132 672 319</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Economic entity</b>		
Opening balance as previously reported	1 517 539 682	1 517 539 682
Adjustments		
Correction of errors	(30 308 478)	(30 308 478)
<b>Balance at 01 July 2015 as restated*</b>	<b>1 487 231 204</b>	<b>1 487 231 204</b>
Changes in net assets		
Surplus for the year	134 145 408	134 145 408
Total changes	134 145 408	134 145 408
<b>Balance at 01 July 2016</b>	<b>1 621 376 617</b>	<b>1 621 376 617</b>
Changes in net assets		
Surplus for the year	160 106 950	160 106 950
Total changes	160 106 950	160 106 950
<b>Balance at 30 June 2017</b>	<b>1 781 483 567</b>	<b>1 781 483 567</b>
<b>Controlling entity</b>		
Opening balance as previously reported	1 516 301 860	1 516 301 860
Adjustments		
Correction of errors	(30 206 139)	(30 206 139)
<b>Balance at 01 July 2015 as restated*</b>	<b>1 486 095 721</b>	<b>1 486 095 721</b>
Changes in net assets		
Surplus for the year	132 672 319	132 672 319
Total changes	132 672 319	132 672 319
<b>Balance at 01 July 2016</b>	<b>1 618 768 041</b>	<b>1 618 768 041</b>
Changes in net assets		
Surplus for the year	154 979 646	154 979 646
Total changes	154 979 646	154 979 646
<b>Balance at 30 June 2017</b>	<b>1 773 747 687</b>	<b>1 773 747 687</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2017	2016	2017	2016
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Sale of goods and services		16 064 408	36 143 829	16 648 983	35 173 898
Grants		602 467 237	517 140 177	565 848 000	490 940 000
Interest income		5 305 018	7 323 413	5 115 213	7 214 593
Other receipts		12 128 709	34 597 495	11 931 565	34 422 622
		635 965 372	595 204 914	599 543 761	567 751 113
<b>Payments</b>					
Employee costs		(147 482 759)	(139 317 524)	(140 843 464)	(133 932 830)
Suppliers		(249 978 431)	(193 181 272)	(223 622 816)	(175 682 973)
Finance costs		(780 626)	(2 352 023)	(695 796)	(2 225 598)
Taxes paid	31	(44 035)	-	-	-
		(398 285 851)	(334 850 819)	(365 162 076)	(311 841 401)
Total receipts		635 965 372	595 204 914	599 543 761	567 751 113
Total payments		(398 285 851)	(334 850 819)	(365 162 076)	(311 841 401)
<b>Net cash flows from operating activities</b>	32	<b>237 679 521</b>	<b>260 354 095</b>	<b>234 381 685</b>	<b>255 909 712</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	8	(232 527 833)	(240 792 604)	(226 193 689)	(240 448 174)
Purchase of intangible assets	9	(23 218)	(7 300)	(23 218)	(7 300)
<b>Net cash flows from investing activities</b>		<b>(232 551 051)</b>	<b>(240 799 904)</b>	<b>(226 216 907)</b>	<b>(240 455 474)</b>
<b>Cash flows from financing activities</b>					
Repayment of non-current loans		(853 901)	(835 511)	(853 901)	(835 511)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4 274 569</b>	<b>18 718 680</b>	<b>7 310 877</b>	<b>14 618 727</b>
Cash and cash equivalents at the beginning of the year		32 523 410	13 804 730	27 315 140	12 696 413
<b>Cash and cash equivalents at the end of the year</b>	7	<b>36 797 979</b>	<b>32 523 410</b>	<b>34 626 017</b>	<b>27 315 140</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Economic entity</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	36 667 825	(4 239 043)	<b>32 428 782</b>	19 541 684	<b>(12 887 098)</b>	
Rental of facilities and equipment	93 819	35 266	<b>129 085</b>	56 310	<b>(72 775)</b>	
Interest received - Outstanding debt	4 995 123	(4 995 123)	-	-	-	
Interest received	3 772 000	228 000	<b>4 000 000</b>	5 305 018	<b>1 305 018</b>	
Other income	27 279 609	9 801 893	<b>37 081 502</b>	16 245 792	<b>(20 835 710)</b>	
Actuarial gains	-	-	-	124 705	<b>124 705</b>	
<b>Total revenue from exchange transactions</b>	<b>72 808 376</b>	<b>830 993</b>	<b>73 639 369</b>	<b>41 273 509</b>	<b>(32 365 860)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants & subsidies	307 981 100	(2 516 000)	<b>305 465 100</b>	556 436 934	<b>250 971 834</b>	
'Total revenue from exchange transactions'	72 808 376	830 993	<b>73 639 369</b>	41 273 509	<b>(32 365 860)</b>	
'Total revenue from non-exchange transactions'	307 981 100	(2 516 000)	<b>305 465 100</b>	556 436 934	<b>250 971 834</b>	
<b>Total revenue</b>	<b>380 789 476</b>	<b>(1 685 007)</b>	<b>379 104 469</b>	<b>597 710 443</b>	<b>218 605 974</b>	
<b>Expenditure</b>						
Employee Related Costs	(127 744 512)	(287 414)	<b>(128 031 926)</b>	(140 608 444)	<b>(12 576 518)</b>	
Remuneration of councillors	(7 459 201)	-	<b>(7 459 201)</b>	(6 874 314)	<b>584 887</b>	
Depreciation and amortisation	(28 204 382)	-	<b>(28 204 382)</b>	(37 911 260)	<b>(9 706 878)</b>	
Finance costs	(1 048 709)	(1 070 998)	<b>(2 119 707)</b>	(1 423 952)	<b>695 755</b>	
Debt Impairment	(29 209 422)	16 965 508	<b>(12 243 914)</b>	(5 262 800)	<b>6 981 114</b>	
Repairs and maintenance	(35 613 729)	(21 411 281)	<b>(57 025 010)</b>	(70 857 776)	<b>(13 832 766)</b>	
Bulk purchases	(64 692 397)	(17 137 312)	<b>(81 829 709)</b>	(80 929 566)	<b>900 143</b>	
Contracted Services	(13 868 633)	(5 276 966)	<b>(19 145 599)</b>	(46 426 932)	<b>(27 281 333)</b>	
General Expenses	(66 966 586)	23 921 229	<b>(43 045 357)</b>	(47 308 449)	<b>(4 263 092)</b>	
<b>Total expenditure</b>	<b>(374 807 571)</b>	<b>(4 297 234)</b>	<b>(379 104 805)</b>	<b>(437 603 493)</b>	<b>(58 498 688)</b>	
	5 981 905	(5 982 241)	<b>(336)</b>	160 106 950	<b>160 107 286</b>	
	-	-	-	-	-	
<b>Surplus before taxation</b>	<b>5 981 905</b>	<b>(5 982 241)</b>	<b>(336)</b>	<b>160 106 950</b>	<b>160 107 286</b>	
Deficit before taxation	5 981 905	(5 982 241)	<b>(336)</b>	160 106 950	<b>160 107 286</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>5 981 905</b>	<b>(5 982 241)</b>	<b>(336)</b>	<b>160 106 950</b>	<b>160 107 286</b>	

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	60 000	136 863 807	<b>136 923 807</b>	124 845 735	<b>(12 078 072)</b>	
Receivables from exchange transactions	8 205 460	-	<b>8 205 460</b>	65 721 398	<b>57 515 938</b>	
Other receivables from exchange transactions	36 667 825	-	<b>36 667 825</b>	10 030 411	<b>(26 637 414)</b>	
VAT receivable	-	-	-	51 610 577	<b>51 610 577</b>	
Cash and cash equivalents	79 476 000	-	<b>79 476 000</b>	36 797 979	<b>(42 678 021)</b>	
	<b>124 409 285</b>	<b>136 863 807</b>	<b>261 273 092</b>	<b>289 006 100</b>	<b>27 733 008</b>	
<b>Non-Current Assets</b>						
Property, plant and equipment	-	-	-	1 828 746 406	<b>1 828 746 406</b>	
Intangible assets	-	-	-	301 656	<b>301 656</b>	
Heritage assets	-	-	-	586 000	<b>586 000</b>	
	-	-	-	<b>1 829 634 062</b>	<b>1 829 634 062</b>	
Non-Current Assets	124 409 285	136 863 807	<b>261 273 092</b>	289 006 100	<b>27 733 008</b>	
Current Assets	-	-	-	1 829 634 062	<b>1 829 634 062</b>	
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-	-	
<b>Total Assets</b>	<b>124 409 285</b>	<b>136 863 807</b>	<b>261 273 092</b>	<b>2 118 640 162</b>	<b>1 857 367 070</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	63 355 273	-	<b>63 355 273</b>	248 526 705	<b>185 171 432</b>	
Consumer deposits	21 510	1 171 543	<b>1 193 053</b>	1 377 510	<b>184 457</b>	
Unspent conditional grants and receipts	-	-	-	72 995 711	<b>72 995 711</b>	
Current portion of defined benefit obligation	-	-	-	534 000	<b>534 000</b>	
Current portion of loans	1 499 680	-	<b>1 499 680</b>	1 003 312	<b>(496 368)</b>	
	<b>64 876 463</b>	<b>1 171 543</b>	<b>66 048 006</b>	<b>324 437 238</b>	<b>258 389 232</b>	
<b>Non-Current Liabilities</b>						
Defined benefit obligation	-	-	-	6 512 000	<b>6 512 000</b>	
Non current loans	7 751 479	-	<b>7 751 479</b>	6 207 357	<b>(1 544 122)</b>	
	<b>7 751 479</b>	-	<b>7 751 479</b>	<b>12 719 357</b>	<b>4 967 878</b>	
	64 876 463	1 171 543	<b>66 048 006</b>	324 437 238	<b>258 389 232</b>	
	7 751 479	-	<b>7 751 479</b>	12 719 357	<b>4 967 878</b>	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>72 627 942</b>	<b>1 171 543</b>	<b>73 799 485</b>	<b>337 156 595</b>	<b>263 357 110</b>	
Assets	124 409 285	136 863 807	<b>261 273 092</b>	2 118 640 162	<b>1 857 367 070</b>	
Liabilities	(72 627 942)	(1 171 543)	<b>(73 799 485)</b>	(337 156 595)	<b>(263 357 110)</b>	
<b>Net Assets</b>	<b>51 781 343</b>	<b>135 692 264</b>	<b>187 473 607</b>	<b>1 781 483 567</b>	<b>1 594 009 960</b>	
<b>Net Assets</b>						

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Reserves</b>						
Accumulated surplus	51 781 343	135 692 264	<b>187 473 607</b>	1 781 483 567	<b>1 594 009 960</b>	



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

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

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Sale of goods and services	21 995 828	(8 561 220)	<b>13 434 608</b>	16 064 408	<b>2 629 800</b>	
Grants	574 205 000	14 409 000	<b>588 614 000</b>	602 467 237	<b>13 853 237</b>	
Interest income	323 775	2 806 353	<b>3 130 128</b>	5 305 018	<b>2 174 890</b>	
Other receipts	26 914 734	11 524 000	<b>38 438 734</b>	12 128 709	<b>(26 310 025)</b>	
	<b>623 439 337</b>	<b>20 178 133</b>	<b>643 617 470</b>	<b>635 965 372</b>	<b>(7 652 098)</b>	

##### Payments

Suppliers and Employee costs	(321 822 999)	-	<b>(321 822 999)</b>	(397 461 190)	<b>(75 638 191)</b>	
Finance costs	(1 049 000)	-	<b>(1 049 000)</b>	(780 626)	<b>268 374</b>	
Taxes paid	-	-	-	(44 035)	<b>(44 035)</b>	
	<b>(322 871 999)</b>	-	<b>(322 871 999)</b>	<b>(398 285 851)</b>	<b>(75 413 852)</b>	

Total receipts	623 439 337	20 178 133	<b>643 617 470</b>	635 965 372	<b>(7 652 098)</b>	
Total payments	(322 871 999)	-	<b>(322 871 999)</b>	(398 285 851)	<b>(75 413 852)</b>	
<b>Net cash flows from operating activities</b>	<b>300 567 338</b>	<b>20 178 133</b>	<b>320 745 471</b>	<b>237 679 521</b>	<b>(83 065 950)</b>	

Purchase of property, plant and equipment	267 516 900	16 925 000	<b>284 441 900</b>	(232 527 833)	<b>(516 969 733)</b>	
Purchase intangible assets	-	-	-	(23 218)	<b>(23 218)</b>	
<b>Net cash flows from investing activities</b>	<b>267 516 900</b>	<b>16 925 000</b>	<b>284 441 900</b>	<b>(232 551 051)</b>	<b>(516 992 951)</b>	

#### Cash flows from financing activities

Repayment of non-current loans	-	-	-	(853 901)	<b>(853 901)</b>	
Net increase/(decrease) in cash and cash equivalents	568 084 238	37 103 133	<b>605 187 371</b>	4 274 569	<b>(600 912 802)</b>	
Cash and cash equivalents at the beginning of the year	-	-	-	32 523 410	<b>32 523 410</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>568 084 238</b>	<b>37 103 133</b>	<b>605 187 371</b>	<b>36 797 979</b>	<b>(568 389 392)</b>	

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1. Presentation of Consolidated Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These consolidated annual financial statements are presented in South African Rand, which is the functional currency of the economic entity.

#### 1.2 Going concern assumption

These consolidated annual financial statements have been prepared based on the expectation that the economic entity will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Consolidation

##### Basis of consolidation

The consolidated annual financial statements comprise the annual financial statements of Umkhanyakude District Municipality (Controlling entity) and Umhloosinga Development Agency (Municipal entity), which is controlled by the Municipality.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities, are included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases.

The consolidated annual financial statements of the controlling entity and its controlled entity used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

##### Definitions:

**Economic entity** means a group of entities comprising a controlling entity and one or more controlled entities.

**Controlling entity** is an entity that has one or more controlled entities.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.4 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates.

Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant judgements include:

Impairment of assets.  
Defined benefit obligations for long service awards.  
Useful lives and residual values of property, plant, and equipment.  
Water and electricity losses.

#### Trade and other receivables

The economic entity assesses its trade and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the economic entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from trade and other receivables.

#### Defined benefit obligations

Defined benefit obligations were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Defined benefit obligations.

#### Taxation

The Municipality's entity, Umhlosinga Development Agency, is a registered tax payer for income tax purposes.

Amounts included in taxable income have been provided for and recognised in the annual financial statements as normal tax payable.

Future tax benefits related to deferred income tax assets are recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

Item	Average useful life
Land	Not depreciated
Buildings	
• Residential dwellings	10-15 years
• Non residential dwellings	15-25 years
• Electricity	5-60 years
• Water	5-100 years
• Sewerage	10-40 years
• Airports	15-30 years
Other	
• Furniture and office equipment	5-10 years
• Computer equipment	3-5 years
• Transport assets	5-7 years
• Other machinery and equipment	5-15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Intangible assets

Intangible assets are initially recognised at cost when they are identifiable.

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Average useful life
Computer software	5

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Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.7 Heritage assets

Assets are resources controlled by an economic entity as a result of past events and from which future economic benefits or service potential are expected to flow to the economic entity.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an economic entity's operations that is shown as a single item for the purpose of disclosure in the consolidated annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The economic entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the economic entity, and the cost or fair value of the asset can be measured reliably.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The economic entity assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the economic entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Derecognition

The economic entity derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Loans payable	Financial liability measured at amortised cost

#### Initial recognition

The economic entity recognises a financial asset or a financial liability in its statement of financial position when the economic entity becomes a party to the contractual provisions of the instrument.

#### Initial measurement of financial assets and financial liabilities

The economic entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The economic entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The economic entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The economic entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the economic entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the economic entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the economic entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

##### Financial liabilities

The economic entity removes a financial liability (or a part of a financial liability) from its consolidated statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as income or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the consolidated statement of financial position when the economic entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### Receivables from trade transactions

Receivables from exchange transactions are measured at amortised cost.

##### Payables from exchange transactions

Trade and other payables are measured at amortised cost.

##### Loans payable

Loans payable are measured at amortised cost

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at amortised cost.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.9 Tax

#### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in consolidated statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Operating lease asset or liability is recognised as asset or liability in the statement of financial position.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the economic entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.11 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

#### Identification

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

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

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

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the economic entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the economic entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

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

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

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

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

#### Identification

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

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

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

# Umkhanyakude District Municipality and its Municipal Entity

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## Accounting Policies

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### 1.13 Impairment of non-cash-generating assets (continued)

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

#### Reversal of an impairment loss

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

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

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

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

### 1.14 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the economic entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Pension Obligations

Umkhanyakude District Council and its employees contribute to the Natal Joint Municipal Pension Fund, Kwazulu-Natal Joint Municipal Provident Fund and GEPP which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No.24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956. Current contributions are charged against operating income on the basis of current service costs.

### 1.15 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the economic entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

### 1.16 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the consolidated financial statements, if both the following criteria are met:

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.16 Commitments (continued)

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

#### Measurement

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

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue comprises of electricity, water and sewer and is recognised based on consumption by consumers. Service revenue from prepaid electricity is recognised based on electricity purchase by consumers. .

### 1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

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### 1.18 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the economic entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. Non-exchange transactions are defined as transactions where the economic entity receives value from another entity without directly giving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the economic entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

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

When, as a result of a non-exchange transaction, the economic entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### 1.19 Interest income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.22 Unauthorised expenditure

“Unauthorised expenditure”, in relation to a municipality or municipal entity, means any expenditure incurred by a economic entity otherwise than in accordance with section 15 or 11(3) of MFMA, and includes-

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; or
- spending of an allocation referred to in paragraph (b), (c), (d) or (e) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation;

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the consolidated statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the consolidated statement of financial performance.

### 1.24 Irregular expenditure

Irregular expenditure in relation to a municipality or municipal entity, means -

- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of MFMA, and which has not been condoned in terms of section 170 of that Act;
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure."

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

### 1.25 Use of estimates

The preparation of consolidated annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the economic entity's

accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in the relevant sections of the consolidated annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.26 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value;
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance;
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk water and electricity;
- Contracted services – included are debt collection costs, data cleansing costs, service level agreement costs, property valuation roll and asset register verification costs, software support costs and security services costs.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several expense items which are not individually significant.

### Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.27 Consumer deposits

Consumer deposits represents security held by the municipality in respect of new consumer accounts opened. Once application for connection of services are made consumers are required to pay a nominal fee which is recognised as a Consumer deposit.

Consumer deposits are recognised at their nominal or carrying value.

Upon closure of a consumer's account the deposit is subsequently refunded by the economic entity to the consumer.

### 1.28 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.29 Budget information

Economic Entity are typically subject to budgetary limits in the form of appropriations or budget authorisation (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.29 Budget information (continued)

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The consolidated annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

### 1.30 Related parties

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

A related party is a person or an municipality with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

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

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

A related party transaction is a transfer of resources, services or obligations between the reporting economic entity and a related party, regardless of whether a price is charged.

### 1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The economic entity will adjust the amount recognised in the consolidated financial statements to reflect adjusting events after the reporting date once the event occurred.

The economic entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the consolidated financial statements.

### 1.32 Changes accounting estimates and judgements

The economic entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Assets Useful Lives

Plant and equipment is depreciated over its useful life. The actual useful lives of the assets are assessed annually and vary depending on a number of factors. In reassessing the assets' useful lives, factors such as technological innovation and maintenance programmes are taken into account.

### 1.33 VAT

The Municipality is a registered VAT vendor and accounts for declaration and submission of VAT returns on a cash basis.

# **Umkhanyakude District Municipality and its Municipal Entity**

Consolidated Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.33 VAT (continued)**

VAT as disclosed in the annual financial statements have been prepared on the accrual basis.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	No effective date determined.
• GRAP 20: Related parties	No effective date determined.
• GRAP 32: Service Concession Arrangement: Grantor	No effective date determined.
• GRAP 34: Separate Financial Statements	No effective date determined.
• GRAP 35: Consolidated Financial statements	No effective date determined.
• GRAP 36: Investments in Associates and Joint Ventures	No effective date determined.
• GRAP 37: Joint Arrangements	No effective date determined.
• GRAP 38: Disclosure of interest in other entities	No effective date determined.
• GRAP 108: Statutory receivables	No effective date determined.
• GRAP 109: Accounting by Principals and Agents	No effective date.
• GRAP 110 : Living and Non-Living Resources	No effective date.
• IGRAP 17: Service Concession Arrangement Where a Grantor Controls a Significant Residual Interest in an Asset Service Concession Arrangement	No effective date.
• IGRAP 18: Recognition and Derecognition of Land	No effective date.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016
<b>3. Inventories</b>				
Materials	111 779 144	125 670 729	111 779 144	125 670 729
Water	1 026 231	1 238 246	1 026 231	1 238 246
Water meters	12 040 360	10 014 832	12 040 360	10 014 832
	<b>124 845 735</b>	<b>136 923 807</b>	<b>124 845 735</b>	<b>136 923 807</b>
Inventory is carried at its original cost and no inventory was written down.				
<b>4. Receivables from exchange transactions</b>				
<b>Gross balances</b>				
Electricity	21 954 072	24 297 058	21 954 072	24 297 058
Water	118 581 743	117 401 770	118 581 743	117 401 770
Sewerage	44 655 452	39 932 363	44 655 452	39 932 363
WSSA debtors	3 219 169	2 419 275	3 219 169	2 419 275
Department of education	7 933 061	7 348 486	-	-
	<b>196 343 497</b>	<b>191 398 952</b>	<b>188 410 436</b>	<b>184 050 466</b>
<b>Less: Allowance for impairment</b>				
Allowance for impairment - Service charges	(130 622 099)	(125 359 299)	(130 622 099)	(125 359 299)
<b>Net balance</b>				
<b>Service charges</b>	<b>65 721 398</b>	<b>66 039 652</b>	<b>57 788 337</b>	<b>58 691 167</b>
<b>Department of education</b>				
Current (0 -30 days)	2 840 280	2 443 874	-	-
31 - 60 days	2 334 030	2 460 461	-	-
61 - 90 days	530 929	2 444 151	-	-
91 - 120 days	2 227 823	-	-	-
	<b>7 933 062</b>	<b>7 348 486</b>	<b>-</b>	<b>-</b>
<b>Electricity</b>				
Current (0 -30 days)	98 795	798 263	98 795	798 263
31 - 60 days	166 851	383 385	166 851	383 385
61 - 90 days	182 219	278 744	182 219	278 744
91 - 120 days	81 230	204 970	81 230	204 970
121 - 365 days	21 424 977	22 631 696	21 424 977	22 631 696
	<b>21 954 072</b>	<b>24 297 058</b>	<b>21 954 072</b>	<b>24 297 058</b>
<b>Water</b>				
Current (0 -30 days)	515 531	4 965 262	515 531	4 965 262
31 - 60 days	870 675	389 589	870 675	389 589
61 - 90 days	950 869	1 798 722	950 869	1 798 722
91 - 120 days	423 881	747 464	423 881	747 464
121 - 365 days	115 820 787	109 500 733	115 820 787	109 500 733
	<b>118 581 743</b>	<b>117 401 770</b>	<b>118 581 743</b>	<b>117 401 770</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 4. Receivables from exchange transactions (continued)

#### Sewerage

Current (0 -30 days)	200 950	1 225 275	200 950	1 225 275
31 - 60 days	339 381	11 418	339 381	11 418
61 - 90 days	370 640	29 416	370 640	29 416
91 - 120 days	165 225	30 887	165 225	30 887
121 - 365 days	43 579 256	38 635 367	43 579 256	38 635 367
	<b>44 655 452</b>	<b>39 932 363</b>	<b>44 655 452</b>	<b>39 932 363</b>



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016
<b>4. Receivables from exchange transactions (continued)</b>				
<b>Summary of debtors by customer classification</b>				
<b>Consumers</b>				
Current (0 -30 days)	339 996	346 346	339 996	346 346
31 - 60 days	517 695	89 278	517 695	89 278
61 - 90 days	663 532	1 327 536	663 532	1 327 536
91 - 120 days	296 531	457 911	296 531	457 911
121 - 365 days	139 516 993	105 712 958	139 516 993	105 712 958
	141 334 747	107 934 029	141 334 747	107 934 029
Less: Allowance for impairment	(112 969 766)	(96 320 682)	(112 969 766)	(96 320 682)
	<b>28 364 981</b>	<b>11 613 347</b>	<b>28 364 981</b>	<b>11 613 347</b>
<b>Commercial</b>				
Current (0 -30 days)	299 749	417 212	299 749	417 212
31 - 60 days	644 949	106 544	644 949	106 544
61 - 90 days	520 711	275 638	520 711	275 638
91 - 120 days	283 944	178 494	283 944	178 494
121 - 365 days	27 865 460	26 149 261	27 865 460	26 149 261
	29 614 813	27 127 149	29 614 813	27 127 149
Less: Allowance for impairment	(16 879 912)	(16 036 782)	(16 879 912)	(16 036 782)
	<b>12 734 901</b>	<b>11 090 367</b>	<b>12 734 901</b>	<b>11 090 367</b>
<b>National and provincial government</b>				
Current (0 -30 days)	3 025 782	3 380 835	185 502	936 961
31 - 60 days	2 553 250	3 049 031	219 220	588 570
61 - 90 days	847 595	2 947 858	316 666	503 707
91 - 120 days	2 321 903	346 916	94 080	346 916
121 - 365 days	9 733 911	11 257 252	9 733 911	11 257 252
	<b>18 482 441</b>	<b>20 981 892</b>	<b>10 549 379</b>	<b>13 633 406</b>
<b>Total</b>				
Current (0 -30 days)	3 665 528	4 144 394	825 248	1 700 520
31 - 60 days	3 715 894	3 244 852	1 381 864	784 391
61 - 90 days	2 031 838	4 551 033	1 500 909	2 106 882
91 - 120 days	2 902 377	983 321	674 554	983 321
121 - 365 days	177 105 472	172 401 406	177 105 473	172 401 406
	189 421 109	185 325 006	181 488 048	177 976 520
Add: Credit balance debtors	3 703 219	3 654 671	3 703 219	3 654 671
Add: WSSA debtors	3 219 169	2 419 275	3 219 169	2 419 275
	<b>196 343 497</b>	<b>191 398 952</b>	<b>188 410 436</b>	<b>184 050 466</b>
<b>Less: Allowance for impairment</b>				
Current (0 -30 days)	-	(5 294 814)	-	(5 294 814)
31 - 60 days	-	(14 384)	-	(14 384)
61 - 90 days	-	(139 094)	-	(139 094)
91 - 120 days	(130 315)	(275 726)	(130 315)	(275 726)
121 - 365 days	(130 491 784)	(119 635 281)	(130 491 784)	(119 635 281)
	<b>(130 622 099)</b>	<b>(125 359 299)</b>	<b>(130 622 099)</b>	<b>(125 359 299)</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 4. Receivables from exchange transactions (continued)

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(125 359 299)	(118 987 103)	(125 359 299)	(118 987 103)
Contributions to allowance	(5 262 800)	(6 372 196)	(5 262 800)	(6 372 196)
	<b>(130 622 099)</b>	<b>(125 359 299)</b>	<b>(130 622 099)</b>	<b>(125 359 299)</b>

### 5. Other receivables from exchange transactions

Other debtors	10 030 411	11 497 680	10 030 411	11 497 680
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### 6. VAT receivable

#### The VAT receivable balance is comprised of:

Input VAT claimed through VAT 201 returns	51 062 763	41 325 728	51 062 763	41 325 728
Undeclared VAT output	(9 872 371)	(9 075 647)	(9 872 371)	(9 075 647)
Unclaimed VAT input	10 420 185	13 765 566	9 516 250	13 251 841
	<b>51 610 577</b>	<b>46 015 647</b>	<b>50 706 642</b>	<b>45 501 922</b>

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	49 286	49 242	48 281	48 281
Bank balances	22 077 180	13 550 585	19 913 386	13 350 057
Call account balances	14 671 513	18 923 583	14 664 350	13 916 802
	<b>36 797 979</b>	<b>32 523 410</b>	<b>34 626 017</b>	<b>27 315 140</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 7. Cash and cash equivalents (continued)

The municipality and its municipal entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
<b>Municipality Accounts</b>						
First National Bank - Demand deposit - 62092993809	619 401	587 008	261 126	619 401	587 008	261 126
First National Bank - Demand deposit - 62027696478	94 147	90 241	86 976	94 147	90 241	86 976
First National Bank - Primary Account: 62026865321	13 607 279	11 418 571	1 264 063	13 607 279	11 418 571	1 264 063
ABSA Bank - 40-5310-7423	4 977 950	673 798	9 990 451	4 977 950	673 798	9 990 451
Ithala Bank - Club Account 23247671	614 609	580 439	541 799	614 609	580 439	541 799
ABSA Bank - Call Account - 91-1531-5268	361 234	13 886 098	469 586	361 234	13 886 098	469 586
First National Bank - Money Market Account - 62263733258	28 911	28 205	28 233	28 911	28 205	28 233
First National Bank - Business Call Account - 62309788498	2 651	2 499	2 213	2 651	2 499	2 213
ABSA Bank - Fixed deposit- 2076739152	14 271 554	-	-	14 271 554	-	-
<b>Municipal Entity Accounts</b>						
Nedbank - Primary Cheque Account-1029736839	2 163 794	200 528	-	2 163 794	200 528	-
Nedbank - Call Account	7 163	5 006 781	-	7 163	5 006 781	-
<b>Total</b>	<b>36 748 693</b>	<b>32 474 168</b>	<b>12 644 447</b>	<b>36 748 693</b>	<b>32 474 168</b>	<b>12 644 447</b>

### 8. Property, plant and equipment

Economic entity	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	101 977 297	(14 256 952)	87 720 345	99 786 429	(12 085 642)	87 700 787
Infrastructure	1 890 695 463	(170 669 259)	1 720 026 204	1 653 117 499	(139 088 194)	1 514 029 305
Other property, plant and equipment	46 912 164	(27 069 557)	19 842 607	46 143 833	(23 063 164)	23 080 669
<b>Total</b>	<b>2 040 742 174</b>	<b>(211 995 768)</b>	<b>1 828 746 406</b>	<b>1 800 205 011</b>	<b>(174 237 000)</b>	<b>1 625 968 011</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	2017	2016	2017	2016
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### 8. Property, plant and equipment (continued)

Controlling entity	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	99 786 429	(14 256 952)	85 529 477	99 786 429	(12 085 642)	87 700 787
Infrastructure	1 886 234 776	(170 669 259)	1 715 565 517	1 652 791 709	(139 088 194)	1 513 703 515
Other property, plant and equipment	46 497 461	(26 899 604)	19 597 857	45 797 354	(23 008 187)	22 789 167
<b>Total</b>	<b>2 033 675 916</b>	<b>(211 825 815)</b>	<b>1 821 850 101</b>	<b>1 799 532 742</b>	<b>(174 182 023)</b>	<b>1 625 350 719</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	2017	2016	2017	2016
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### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Economic entity - 2017

	Opening balance	Additions	Donated assets	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	1 157 250
Buildings	87 700 787	2 190 868	-	(2 028 110)	(143 200)	87 720 345
Infrastructure	1 514 029 305	233 404 571	4 173 393	(27 893 315)	(3 687 750)	1 720 026 204
Other property, plant and equipment	23 080 669	813 457	-	(3 885 205)	(166 314)	19 842 607
	<b>1 625 968 011</b>	<b>236 408 896</b>	<b>4 173 393</b>	<b>(33 806 630)</b>	<b>(3 997 264)</b>	<b>1 828 746 406</b>

#### Reconciliation of property, plant and equipment - Economic entity - 2016

	Opening balance	Additions	Transfers to expense*	Depreciation	Closing balance
Land	1 157 250	-	-	-	1 157 250
Buildings	89 026 499	-	-	(1 325 712)	87 700 787
Infrastructure	1 362 878 509	229 683 171	(48 678 231)	(29 854 144)	1 514 029 305
Other property, plant and equipment	26 589 423	1 656 250	-	(5 165 004)	23 080 669
	<b>1 479 651 681</b>	<b>231 339 421</b>	<b>(48 678 231)</b>	<b>(36 344 860)</b>	<b>1 625 968 011</b>

#### Reconciliation of property, plant and equipment - Controlling entity - 2017

	Opening balance	Additions	Donated assets	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	1 157 250
Buildings	87 700 787	-	-	(2 028 110)	(143 200)	85 529 477
Infrastructure	1 513 703 515	229 269 674	4 173 393	(27 893 315)	(3 687 750)	1 715 565 517
Other property, plant and equipment	22 789 167	700 105	-	(3 725 101)	(166 314)	19 597 857
	<b>1 625 350 719</b>	<b>229 969 779</b>	<b>4 173 393</b>	<b>(33 646 526)</b>	<b>(3 997 264)</b>	<b>1 821 850 101</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Controlling entity - 2016

	Opening balance	Additions	Transfers to expense*	Depreciation	Closing balance
Land	1 157 250	-	-	-	1 157 250
Buildings	89 026 499	-	-	(1 325 712)	87 700 787
Infrastructure	1 362 878 509	229 357 381	(48 678 231)	(29 854 144)	1 513 703 515
Other property, plant and equipment	26 131 459	1 655 116	-	(4 997 408)	22 789 167
	<b>1 479 193 717</b>	<b>231 012 497</b>	<b>(48 678 231)</b>	<b>(36 177 264)</b>	<b>1 625 350 719</b>

#### Pledged as security

As at 30 June 2017, Umkhanyakude District Municipality received assets from Umhlabuyalingana Municipality at their carrying amounts of R4 173 393. These assets were recognised in the books of Umkhanyakude District Municipality at their carrying amounts as the carrying amounts were accepted as the good indicators of the fair value of the assets considering that they were only used for one year.

There were no assets pledged as security during the year.

\*The municipality handed over completed toilets that were constructed during 2015 to the community in the prior year. These were expensed from assets under construction. Refer to not 29.

During the year management agreed to dispose items with a total carrying value of R851 549. These items were sold during the auction held after year end.

#### Reconciliation of Work-in-Progress Economic entity - 2017

	Included within Infrastructure	Included within Buildings	Total
Opening balance	588 686 701	44 815 431	633 502 132
Additions	233 404 571	2 190 868	235 595 439
Transferred to completed assets	(377 752 365)	(5 361 641)	(383 114 006)
	<b>444 338 907</b>	<b>41 644 658</b>	<b>485 983 565</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 8. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress Economic entity - 2016

	Included within Infrastructure	Included within Building	Total
Opening balance	577 335 045	44 815 431	622 150 476
Additions	229 683 171	-	229 683 171
Transferred to completed assets	(169 653 284)	-	(169 653 284)
Transferred to completed expense*	(48 678 231)	-	(48 678 231)
	<b>588 686 701</b>	<b>44 815 431</b>	<b>633 502 132</b>

#### Reconciliation of Work-in-Progress Controlling entity - 2017

	Included within Infrastructure	Included within Buildings	Total
Opening balance	588 360 911	44 815 431	633 176 342
Additions	229 269 674	-	229 269 674
Transferred to completed assets	(377 752 365)	(5 361 641)	(383 114 006)
	<b>439 878 220</b>	<b>39 453 790</b>	<b>479 332 010</b>

#### Reconciliation of Work-in-Progress Controlling entity - 2016

	Included within Infrastructure	Included within Buildings	Total
Opening balance	577 335 045	44 815 431	622 150 476
Additions	229 357 381	-	229 357 381
Transferred to completed assets	(169 653 284)	-	(169 653 284)
Transferred to completed expense*	(48 678 231)	-	(48 678 231)
	<b>588 360 911</b>	<b>44 815 431</b>	<b>633 176 342</b>

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 9. Intangible assets

Economic entity	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	765 746	(464 090)	301 656	742 528	(356 726)	385 802
Controlling entity	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	765 746	(464 090)	301 656	742 528	(356 726)	385 802

#### Reconciliation of intangible assets - Economic entity - 2017

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

#### Reconciliation of intangible assets - Economic entity - 2016

	Opening balance	Additions	Amortisation	Closing balance
Computer software	549 007	7 300	(170 505)	385 802

#### Reconciliation of intangible assets - Controlling entity - 2017

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

#### Reconciliation of intangible assets - Controlling entity - 2016

	Opening balance	Additions	Amortisation	Closing balance
Computer software	549 007	7 300	(170 505)	385 802

### 10. Heritage assets

Economic entity	2017			2016		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000
Controlling entity	2017			2016		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 10. Heritage assets (continued)

	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

#### Reconciliation of heritage assets Economic entity - 2017

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

#### Reconciliation of heritage assets Economic entity - 2016

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

#### Reconciliation of heritage assets Controlling entity - 2017

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

#### Reconciliation of heritage assets Controlling entity - 2016

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

#### Recognition of heritage assets

The deemed cost of the mayoral chain was determined using fair value. The fair value was determined by a Corlia Luyt, an independent jewellery designer and manufacturer, on 23 August 2016.

### 11. Payables from exchange transactions

Trade payables	205 601 687	204 078 307	204 135 085	203 509 643
Debtor prepayments	3 703 219	3 654 672	3 703 219	3 654 672
Employee deductions and suspense accounts	6 521 471	5 625 660	6 521 471	5 625 660
Operating lease payables	-	95 983	-	95 983
Accruals for overtime	329 699	329 699	329 699	329 699
Accruals for 13th cheque payments	3 234 937	3 131 127	3 234 937	3 131 127
Accruals for leave pay	13 530 026	10 562 086	13 246 954	10 379 021
Retentions	15 605 666	21 229 994	15 605 666	21 229 994
	<b>248 526 705</b>	<b>248 707 528</b>	<b>246 777 031</b>	<b>247 955 799</b>

### 12. Consumer deposits

Consumer deposits - water	1 377 510	1 193 053	1 377 510	1 193 053
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# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016
<b>13. Unspent conditional grants and receipts</b>				
<b>Unspent conditional grants and receipts comprises of:</b>				
<b>Unspent conditional grants and receipts</b>				
ACIP Grant	4 695	4 695	4 695	4 695
Disaster Management Grant	9 120	9 120	9 120	9 120
EDTEA Grant	6 289 012	5 015 037	-	-
Environmental Management Grant	405 600	405 600	405 600	405 600
Expanded Public Works Programme	-	2 331 774	-	2 331 774
Industrial Development Corporation Grant	700 135	700 873	-	-
Ingwavuma Prison Electrical Upgrade	101 506	101 506	101 506	101 506
Kwadapha	578 891	578 891	578 891	578 891
Kwazibi National Lottery Grant	122 667	122 667	122 667	122 667
Lake Tete	267 001	267 001	267 001	267 001
Mabibi National Lottery Grant	166 667	166 667	166 667	166 667
Massification Grant	4 172 492	4 172 492	4 172 492	4 172 492
Mkuze Market Stalls Grant	116 280	400 500	-	-
Mkuze Re-Generation Plan Grant	309 096	446 289	-	-
Mqobela National Lottery Grant	166 666	166 666	166 666	166 666
MTN Grant	515 703	515 703	-	-
Municipal Infrastructure Grant	15 410 451	-	15 410 451	-
National Treasury ILO Grant	212 173	212 173	-	-
Ndumo Groundnuts	-	353 847	-	353 847
Ndumo Learners Shelter Grant	9 441 505	9 441 505	9 441 505	9 441 505
Ndumo Market Stalls Grant	277 310	2 992 861	-	-
Nyezi Community HIV Centre	303 570	303 570	303 570	303 570
PIMMS/ NDT Operational Grant	300	300	300	300
Public Participation Customer Satisfaction Survey	154 000	154 000	154 000	154 000
Rural Households Infrastructure Grant	-	8 498	-	8 498
Rural Road & Transport Management Grant	-	2 446 932	-	2 446 932
Shared Services Grant	1	54 541	1	54 541
Umkhombe Tours	908 690	908 690	908 690	908 690
Waste Management Grant	145 565	145 565	145 565	145 565
Water Services Infrastructure Grant	32 205 315	-	32 205 315	-
Water Services Operating Subsidy	-	1 945 954	-	1 945 954
KwaJobe-Cezwana Water Purification Grant	-	(6)	-	(6)
Councillors training	11 300	11 300	11 300	11 300
	<b>72 995 711</b>	<b>34 385 211</b>	<b>64 576 002</b>	<b>24 101 775</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 14. Defined benefit plan Obligation

#### Reconciliation of defined benefit plan obligation - Economic entity - 2017

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

#### Reconciliation of defined benefit plan obligation - Economic entity - 2016

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	4 887 000	713 000	471 000	(161 060)	259 060	6 169 000

#### Reconciliation of defined benefit plan obligation - Controlling entity - 2017

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

#### Reconciliation of defined benefit plan obligation - Controlling entity - 2016

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	4 887 000	713 000	471 000	(161 060)	259 060	6 169 000

#### Defined benefit plan obligation disclosed in the Statement of Financial

##### Position as:

Non-current liabilities	6 512 000	5 946 000	6 512 000	5 946 000
Current liabilities	534 000	223 000	534 000	223 000
	<b>7 046 000</b>	<b>6 169 000</b>	<b>7 046 000</b>	<b>6 169 000</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 14. Defined benefit plan Obligation (continued)

#### Long service awards

##### Membership Data

As at 30 June 2017, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Weighted Average past service (Years)
Male	204	42.95	6.73
Female	98	40.26	7.8
<b>Total</b>	<b>302.</b>		

#### Long service awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. Awarded leave days are converted to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The nominal and real zero curves as at 30 June 2016 supplied by the JSE were used to determine the discounted rates and CPI assumptions. As reflected below, the average age for mortality, retirements and withdrawals from service were also considered.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. It is further assumed that the current policy for awarding long service awards remains unchanged in the future.

The table below reflects a summary of the benefit policy:

Completed years of service	Total long service benefit awards (% of annual salary)	Formula used to calculate Total long service benefit award
10	4%	$(10/250) \times \text{Annual salary}$
15	8%	$(20/250) \times \text{Annual salary}$
20,25,30,35,40 and 45	12%	$(30/250) \times \text{Annual salary}$

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 14. Defined benefit plan Obligation (continued)

Valuation Assumptions - Key Financial Variables	Assumed value 30 June 2017	Assumed value 30 June 2016
Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve**	Difference between nominal and real yield curve**
Normal salary increase	CPI + 1%	6%
Net Effective Discount Rate	Yield Curve	Yield Curve
Average retirement age for all active employees	Based 63	Based 63
Mortality before retirement	SA 85-90	SA 85-90.

The table below sets out the assumed rates of withdrawal from services:

Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 -59	1%	1%
Age 60+	0%	0%.

### Valuation of assets

As at the valuation date, the long service leave liability award of the economic entity was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

### Amounts recognised in the Statement of Financial Position

Accrued defined benefit obligation	7 046 000	6 169 000	7 046 000	6 169 000
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### Reconciliation of accrued defined benefit obligation:

#### Long service awards

Accrued liability as at preceding valuation date	6 169 000	4 887 000	6 169 000	4 887 000
Current service cost	817 000	713 000	817 000	713 000
Interest cost	649 000	471 000	649 000	471 000
Benefits paid	(464 295)	(161 060)	(464 295)	(161 060)
Actuarial (gain)/loss	(124 705)	259 060	(124 705)	259 060
<b>Balance at year end</b>	<b>7 046 000</b>	<b>6 169 000</b>	<b>7 046 000</b>	<b>6 169 000</b>

### Net amounts recognised in Statement of Financial Performance

Current service cost	817 000	713 000	817 000	713 000
Interest cost	649 000	471 000	649 000	471 000
Benefits paid	(464 295)	(161 060)	(464 295)	(161 060)
Actuarial gain/(loss)	(124 705)	259 060	(124 705)	259 060
	<b>877 000</b>	<b>1 282 000</b>	<b>877 000</b>	<b>1 282 000</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 15. Non-current loans

#### Development Bank of Southern Africa Loans

Non-current portion of borrowings	6 207 357	7 048 086	6 207 357	7 048 086
Current portion of borrowings (including interest accrual)	1 003 312	1 016 484	1 003 312	1 016 484
	<b>7 210 669</b>	<b>8 064 570</b>	<b>7 210 669</b>	<b>8 064 570</b>

The municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates per each loan are as follows:

Loan 61000800, fixed interest rate at 6.75%

Loan 61000191, semi- floating interest rate. Interest reference is 6 Month Jibar (current base interest plus the margin).

Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.

### 16. Service charges

Sale of electricity	5 262 044	4 883 908	5 262 044	4 883 908
Sale of water	13 771 141	17 411 917	13 771 141	17 411 917
Sewerage and sanitation charges	508 499	429 973	508 499	429 973
	<b>19 541 684</b>	<b>22 725 798</b>	<b>19 541 684</b>	<b>22 725 798</b>

### 17. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	56 310	66 939	56 310	66 939
Premises	-	-	-	-
Garages and parking	-	-	-	-
Facilities and equipment	56 310	66 939	56 310	66 939

### 18. Investment revenue

#### Interest income

Interest on investment balances	2 402 904	4 416 920	2 213 099	4 308 100
Interest on other bank balances	2 902 114	2 906 493	2 902 114	2 906 493
	<b>5 305 018</b>	<b>7 323 413</b>	<b>5 115 213</b>	<b>7 214 593</b>
	-	-	-	-
	5 305 018	7 323 413	5 115 213	7 214 593

### 19. Other income

Connection fees	21 723	9 763	21 723	9 763
Department of Water and Sanitation refund	11 666 297	34 216 370	11 666 297	34 216 370
Sale of tender documents	198 866	95 088	171 234	63 597
Sundry revenue	116 000	90 387	16 000	65 954
Airport fees	69 513	118 948	-	-
Donations received	4 173 393	-	4 173 393	-
	<b>16 245 792</b>	<b>34 530 556</b>	<b>16 048 647</b>	<b>34 355 684</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016
<b>20. Government grants and subsidies</b>				
<b>Operating grants</b>				
Equitable share	292 147 158	265 376 000	292 147 158	265 376 000
Expanded Public Works Programme	1 293 000	1 058 226	1 293 000	1 058 226
Rural Households Infrastructure Grant	-	3 999 498	-	3 999 498
Mbazwana Thusong Centre Grant	-	101 729	-	101 729
Finance Management Grant	1 250 000	1 250 000	1 250 000	1 250 000
Municipal Systems Improvement Grant	-	940 000	-	940 000
Ndumo Groundnuts	353 847	395 500	353 847	395 500
Shared Services Grant	54 540	195 459	54 540	195 459
Water Services Operating Subsidy	-	3 254 046	-	3 254 047
National school Nutrition Program	23 197 434	21 864 577	-	-
Other Operating Grants	7 863 727	1 335 601	-	-
	<b>326 159 706</b>	<b>299 770 636</b>	<b>295 098 545</b>	<b>276 570 459</b>
<b>Capital grants</b>				
Municipal Infrastructure Grant	192 111 543	222 693 064	192 111 543	222 693 064
Water services Infrastructure Grant	38 165 685	-	38 165 685	-
	<b>230 277 228</b>	<b>222 693 064</b>	<b>230 277 228</b>	<b>222 693 064</b>
	326 159 706	299 770 636	295 098 545	276 570 459
	230 277 228	222 693 064	230 277 228	222 693 064
	<b>556 436 934</b>	<b>522 463 700</b>	<b>525 375 773</b>	<b>499 263 523</b>
<b>Public Participation &amp; Customer Satisfaction Survey Grant</b>				
Balance unspent at beginning of year	154 000	154 000	154 000	154 000
Conditions still to be met - remain liabilities (see note 13).				
<b>PIMMS / NDT Operational Grant</b>				
Balance unspent at beginning of year	300	300	300	300
Conditions still to be met - remain liabilities (see note 13).				
<b>Financial Management Grant</b>				
Current-year receipts	1 250 000	1 250 000	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)	(1 250 000)	(1 250 000)
	-	-	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Massification Grant</b>				
Balance unspent at beginning of year	4 172 492	4 172 492	4 172 492	4 172 492
Conditions still to be met - remain liabilities (see note 13).				
<b>Kwazibi National Lottery Grant</b>				
Balance unspent at beginning of year	122 667	122 667	122 667	122 667

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016
<b>20. Government grants and subsidies (continued)</b>				
Conditions still to be met - remain liabilities (see note 13).				
<b>Mqobela National Lottery Grant</b>				
Balance unspent at beginning of year	166 666	166 666	166 666	166 666
Conditions still to be met - remain liabilities (see note 13).				
<b>Mabibi National Lottery Grant</b>				
Balance unspent at beginning of year	166 667	166 667	166 667	166 667
Conditions still to be met - remain liabilities (see note 13).				
<b>Disaster Management Grant</b>				
Balance unspent at beginning of year	9 120	9 120	9 120	9 120
Conditions still to be met - remain liabilities (see note 13).				
<b>Municipal Systems Improvement Grant</b>				
Current-year receipts	-	940 000	-	940 000
Conditions met - transferred to revenue	-	(940 000)	-	(940 000)
	-	-	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Ndumo Groundnuts Grant</b>				
Balance unspent at beginning of year	353 847	749 347	353 847	749 347
Conditions met - transferred to revenue	(353 847)	(395 500)	(353 847)	(395 500)
	-	353 847	-	353 847
<b>Expanded Public Works Programme</b>				
Balance unspent at beginning of year	2 331 774	2 082 000	2 331 774	2 082 000
Current-year receipts	1 293 000	1 308 000	1 293 000	1 308 000
Conditions met - transferred to revenue	(1 293 000)	(1 058 226)	(1 293 000)	(1 058 226)
Unspent Grant withheld from Equitable share	(2 331 774)	-	(2 331 774)	-
	-	2 331 774	-	2 331 774
<b>Lake Tete Grant</b>				
Balance unspent at beginning of year	267 001	267 001	267 001	267 001
Conditions still to be met - remain liabilities (see note 13).				
<b>Kwadapha Grant</b>				
Balance unspent at beginning of year	578 891	578 891	578 891	578 891



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>20. Government grants and subsidies (continued)</b>				
Conditions still to be met - remain liabilities (see note 13).				
<b>Nyezi Community HIV Centre Grant</b>				
Balance unspent at beginning of year	303 570	303 570	303 570	303 570
Conditions still to be met - remain liabilities (see note 13).				
<b>Umkhombe Tours Grant</b>				
Balance unspent at beginning of year	908 690	908 690	908 690	908 690
Conditions still to be met - remain liabilities (see note 13).				
<b>Waste Management Grant</b>				
Balance unspent at beginning of year	145 565	145 565	145 565	145 565
Conditions still to be met - remain liabilities (see note 13).				
<b>Environmental Management Grant</b>				
Balance unspent at beginning of year	405 600	405 600	405 600	405 600
Conditions still to be met - remain liabilities (see note 13).				
<b>Rural Road &amp; Transport Management Grant</b>				
Balance unspent at beginning of year	2 446 931	1 114 931	2 446 931	1 114 931
Current-year receipts	-	2 447 000	-	2 447 000
Unspent grants paid back	(2 446 931)	(1 115 000)	(2 446 931)	(1 115 000)
	-	<b>2 446 931</b>	-	<b>2 446 931</b>
Conditions still to be met - remain liabilities (see note 13).				
<b>Ndumo Learners Shelter Grant</b>				
Balance unspent at beginning of year	9 441 505	9 441 505	9 441 505	9 441 505
Conditions still to be met - remain liabilities (see note 13).				
<b>Municipal Infrastructure Grant</b>				
Balance unspent at beginning of year	-	12 274 058	-	12 274 058
Current-year receipts	207 522 000	210 419 000	207 522 000	210 419 000
Conditions met - transferred to revenue	(192 111 549)	(222 693 058)	(192 111 549)	(222 693 058)
	<b>15 410 451</b>	-	<b>15 410 451</b>	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Councillors Training Grant</b>				
Balance unspent at beginning of year	11 300	11 300	11 300	11 300

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 20. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 13).

#### Ingwavuma Prison Electrical Upgrade

Balance unspent at beginning of year	101 506	101 506	101 506	101 506
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Conditions still to be met - remain liabilities (see note 13).

#### Water Services Operating Subsidy

Balance unspent at beginning of year	1 945 954	-	1 945 954	-
Current-year receipts	-	5 200 000	-	5 200 000
Conditions met - transferred to revenue	-	(3 254 046)	-	(3 254 046)
Unspent Grant withheld from Equitable share	(1 945 954)	-	(1 945 954)	-
	<b>-</b>	<b>1 945 954</b>	<b>-</b>	<b>1 945 954</b>

Conditions still to be met - remain liabilities (see note 13).

#### Shared Services Grant

Balance unspent at beginning of year	54 540	250 000	54 540	250 000
Conditions met - transferred to revenue	(54 540)	(195 460)	(54 540)	(195 460)
	<b>-</b>	<b>54 540</b>	<b>-</b>	<b>54 540</b>

#### Rural Households Infrastructure Grant

Balance unspent at beginning of year	8 498	7 996	8 498	7 996
Current-year receipts	-	4 000 000	-	4 000 000
Conditions met - transferred to revenue	-	(3 999 498)	-	(3 999 498)
Unspent Grant withheld from Equitable share	(8 498)	-	(8 498)	-
	<b>-</b>	<b>8 498</b>	<b>-</b>	<b>8 498</b>

#### ACIP Grant

Balance unspent at beginning of year	4 695	4 695	4 695	4 695
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Conditions still to be met - remain liabilities (see note 13).

#### Mbazwana Thusong Centre Grant

Current-year receipts	-	101 729	-	101 729
Conditions met - transferred to revenue	-	(101 729)	-	(101 729)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 13).

#### Water Service Infrastructure Grant

Current-year receipts	70 371 000	-	70 371 000	-
Conditions met - transferred to revenue	(38 165 685)	-	(38 165 685)	-
	<b>32 205 315</b>	<b>-</b>	<b>32 205 315</b>	<b>-</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 20. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 13).

#### Ndumo Market Stalls Grant: COGTA

Balance unspent at beginning of year	2 992 861	-	-	-
Current-year receipts	-	3 000 000	-	-
Conditions met - transferred to revenue	(2 715 551)	(7 139)	-	-
	<b>277 310</b>	<b>2 992 861</b>	-	-

Conditions still to be met - remain liabilities (see note 13).

#### Mkuze Regeneration Framework

Balance unspent at beginning of year	446 289	-	-	-
Current-year receipts	-	1 029 288	-	-
Conditions met - transferred to revenue	(137 193)	(582 999)	-	-
	<b>309 096</b>	<b>446 289</b>	-	-

Conditions still to be met - remain liabilities (see note 13).

#### Mkuze Market Stalls Grant

Balance unspent at beginning of year	400 500	-	-	-
Current-year receipts	-	700 000	-	-
Conditions met - transferred to revenue	(284 220)	(299 500)	-	-
	<b>116 280</b>	<b>400 500</b>	-	-

Conditions still to be met - remain liabilities (see note 13).

#### IDC Grant

Balance unspent at beginning of year	700 873	700 873	-	-
Conditions met - transferred to revenue	(738)	-	-	-
	<b>700 135</b>	<b>700 873</b>	-	-

Conditions still to be met - remain liabilities (see note 13).

#### National Treasury: ILO Grant

Balance unspent at beginning of year	212 173	212 173	-	-
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Conditions still to be met - remain liabilities (see note 13).

#### MTN Grant

Balance unspent at beginning of year	515 703	515 703	-	-
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Conditions still to be met - remain liabilities (see note 13).

#### Mkuze Fencing and Runway grant

Balance unspent at beginning of year	5 015 037	-	-	-
Current-year receipts	6 000 000	5 461 000	-	-

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 20. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(4 726 025)	(445 963)	-	-
	<b>6 289 012</b>	<b>5 015 037</b>	-	-

Conditions still to be met - remain liabilities (see note 13).

### National Schools Nutrition Programme Grant

Current-year receipts	23 197 434	21 864 577	-	-
Conditions met - transferred to revenue	(23 197 434)	(21 864 577)	-	-
	-	-	-	-

Conditions still to be met - remain liabilities (see note 13).

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>21. Employee related costs</b>				
Basic	104 497 012	98 804 400	99 441 280	94 716 904
Medical aid - company contributions	20 775 632	19 718 101	20 221 856	19 202 757
Staff retirement benefits	929 779	734 220	-	-
Defined contribution plans	-	811 000	-	811 000
Travel, motor car, accommodation, subsistence and other allowances	6 383 310	6 792 064	6 383 310	6 792 064
Overtime payments	3 145 630	2 703 607	3 145 630	2 703 607
13th Cheques	-	199 023	-	199 023
Housing benefits and allowances	556 085	2 001 676	556 085	2 001 676
Leave pay accrual charge	4 320 996	1 107 525	4 220 989	1 060 260
	<b>140 608 444</b>	<b>132 871 616</b>	<b>133 969 150</b>	<b>127 487 291</b>

### Remuneration of municipal manager

Annual Remuneration	799 521	727 288	799 521	727 288
Travel, housing and other allowances	69 891	333 122	69 891	333 122
Contributions to UIF, Medical and Pension Funds	5 343	11 168	5 343	11 168
	<b>874 755</b>	<b>1 071 578</b>	<b>874 755</b>	<b>1 071 578</b>

Two people acted for the position of Municipal Manager during the 2017 financial year. The permanent Municipal Manager was only appointed effective 01 August 2017.

### Remuneration of chief finance officer

Total remuneration	1 388 306	846 193	1 388 306	846 193
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During the 2017 financial year, there was an acting Chief Financial Officer (CFO) and he was paid total remuneration of R1 388 306 (R846 193) prior year. A new Acting CFO was appointed subsequent to year end on 01 September 2017.

### Remuneration of the Chief Executive Officer - Umhlozinga Development Agency

Annual Remuneration	1 054 100	963 000	-	-
Travel, housing and other allowances	343 470	321 000	-	-
Contributions to UIF, Medical and Pension Funds	256 160	239 445	-	-
	<b>1 653 730</b>	<b>1 523 445</b>	<b>-</b>	<b>-</b>

### Remuneration of Chief Finance Officer - Umhlozinga Development Agency

Annual Remuneration	778 425	722 250	-	-
Travel, housing and other allowances	257 602	240 750	-	-
Contributions to UIF, Medical and Pension Funds	179 930	168 321	-	-
	<b>1 215 957</b>	<b>1 131 321</b>	<b>-</b>	<b>-</b>

### Remuneration of General Manager - Corporate Service

Annual Remuneration	709 776	648 833	709 776	648 833
Travel, housing and other allowances	237 984	354 652	237 984	354 652
Contributions to UIF, Medical and Pension Funds	67 564	10 937	67 564	10 937
	<b>1 015 324</b>	<b>1 014 422</b>	<b>1 015 324</b>	<b>1 014 422</b>

The General Manager for Corporate Services resigned during the 2017 financial year and two people acted consecutively for the position.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 21. Employee related costs (continued)

#### Remuneration of General Manager - Community Services and Planning & Economic Development

Annual Remuneration	782 568	771 550	782 568	771 550
Car Allowance	203 048	203 048	203 048	203 048
Travel, housing and other allowances	10 250	10 428	10 250	10 428
	<b>995 866</b>	<b>985 026</b>	<b>995 866</b>	<b>985 026</b>

#### Remuneration of General Manager - Technical Services

Annual Remuneration	946 623	353 389	946 623	353 389
Travel, housing and other allowances	860 566	168 806	860 566	168 806
Contributions to UIF, Medical and Pension Funds	107 657	7 479	107 657	7 479
Leave paid	-	119 301	-	119 301
	<b>1 914 846</b>	<b>648 975</b>	<b>1 914 846</b>	<b>648 975</b>

#### Remuneration of General Manager - Planning and Economic Development

Annual Remuneration	-	117 581	-	117 581
Travel, housing and other allowances	-	51 860	-	51 860
Contributions to UIF, Medical and Pension Funds	-	2 778	-	2 778
Leave paid	-	93 124	-	93 124
	-	<b>265 343</b>	-	<b>265 343</b>

During the 2017 Financial year, the department for Planning and Economic Development and for Community Services were grouped together. Refer to General Manager Community Services for 2017 salaries paid to the General manager.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 22. Remuneration of councillors

Mayor	677 605	731 529	677 605	731 529
Deputy Mayor	622 539	590 118	622 539	590 118
Speaker	592 872	591 426	592 872	591 426
Executive Committee Members	1 652 500	1 672 597	1 652 500	1 672 597
Councillors	3 328 798	2 859 868	3 328 798	2 859 868
	<b>6 874 314</b>	<b>6 445 538</b>	<b>6 874 314</b>	<b>6 445 538</b>

#### Mayor

Mayoral allowance	524 089	563 040	524 089	563 040
Travel allowance	127 310	140 760	127 310	140 760
Cellphone allowance	19 682	20 868	19 682	20 868
Contributions to UIF, Medical and Pension Funds	6 524	6 861	6 524	6 861
	<b>677 605</b>	<b>731 529</b>	<b>677 605</b>	<b>731 529</b>

#### Deputy Mayor

Annual remuneration	424 110	450 432	424 110	450 432
Travel allowance	103 316	112 608	103 316	112 608
Cellphone allowance	19 682	20 868	19 682	20 868
Reimbursable allowance	69 543	700	69 543	700
Contributions to UIF, Medical and Pension Funds	5 888	5 510	5 888	5 510
	<b>622 539</b>	<b>590 118</b>	<b>622 539</b>	<b>590 118</b>

#### Speaker

Annual remuneration	424 110	450 432	424 110	450 432
Travel allowance	102 315	112 608	102 315	112 608
Cellphone allowance	19 682	20 868	19 682	20 868
Reimbursable allowance	41 114	2 008	41 114	2 008
Contributions to UIF, Medical and Pension Funds	5 651	5 510	5 651	5 510
	<b>592 872</b>	<b>591 426</b>	<b>592 872</b>	<b>591 426</b>

### In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.

All Councillors are re-imbursed for kilometres travelled on official duties with the exception of the Mayor.

The Deputy Mayor and other Executive Committee Members each have an office and share secretarial support at the cost of the Council.

Only the Mayor has the use of Council owned vehicle for official duties.

The Mayor and Speaker have two full-time bodyguards and one relief bodyguard.

### 23. Depreciation, amortisation and impairment

Property, plant and equipment	37 911 260	36 515 366	37 751 156	36 347 769
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# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 24. Finance costs

Trade and other payables	84 830	126 425	-	-
Current borrowings	1 339 122	2 225 598	1 339 122	2 225 598
	<b>1 423 952</b>	<b>2 352 023</b>	<b>1 339 122</b>	<b>2 225 598</b>

### 25. Debt impairment

Contributions to debt impairment provision	5 262 800	6 372 196	5 262 800	6 372 196
Bad debts written off	-	12 093 168	-	12 093 168
	<b>5 262 800</b>	<b>18 465 364</b>	<b>5 262 800</b>	<b>18 465 364</b>

### 26. Repairs and maintenance

Expenditure on repairs and maintenance comprised the following:

Electricity infrastructure	1 484 096	413 337	1 484 096	413 337
Motor vehicles	602 110	1 637 900	602 110	1 637 900
Buildings	572 488	680 237	571 797	676 874
Water distribution	68 199 082	30 490 044	68 199 082	30 490 044
	<b>70 857 776</b>	<b>33 221 518</b>	<b>70 857 085</b>	<b>33 218 155</b>

### 27. Bulk purchases

Electricity	38 071 116	29 793 680	38 071 116	29 793 680
Water	42 858 450	43 807 319	42 858 450	43 807 318
	<b>80 929 566</b>	<b>73 600 999</b>	<b>80 929 566</b>	<b>73 600 998</b>

Bulk purchases of electricity comprises electricity purchases for resale as prepaid electricity, own consumption by the municipality for its buildings, offices and water schemes.

Bulk purchases of water comprises water purchased for resale.

### 28. Contracted services

Contracted expenditure incurred during the year	46 426 932	31 035 955	23 264 678	13 431 591
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Contracted services comprised the following :

Consultancy fees	3 577 858	1 893 446	3 577 858	1 893 446
Insurance	1 041 898	685 613	1 041 898	685 613
Fleet management	5 718 679	778 342	5 718 679	778 342
Vehicle hire	14 856	369 734	14 856	369 734
Photocopies and office equipment rental	1 524 518	1 477 305	1 446 165	1 412 832
Cellular and data services	1 309 836	2 093 794	1 309 836	2 093 794
IT services	121 203	424 240	121 203	424 240
Internal audit fees	272 910	2 125 002	272 910	2 125 002
Communication	2 788 505	806 500	2 788 505	806 500
Security services	6 146 725	2 332 965	6 146 725	2 332 965
School nutrition programme	23 083 901	17 539 891	-	-
Other services	826 043	509 123	826 043	509 123
	<b>46 426 932</b>	<b>31 035 955</b>	<b>23 264 678</b>	<b>13 431 591</b>



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>29. General expenses</b>				
Accommodation	481 672	1 647 600	337 462	1 557 230
Advertising	362 279	144 588	43 688	133 804
Audit fees	3 644 349	3 695 419	3 031 181	3 057 443
Audit committee fees	354 086	32 014	354 086	32 014
Administration expenses	24 221	23 277	-	-
Bank charges	338 114	476 846	318 207	461 474
Cleaning	348 167	56 712	345 182	52 761
Community development and training	70	138 500	70	138 500
Consulting and professional fees	1 783 353	1 371 968	1 706 385	1 342 847
Fuel and oil	876 102	1 614 014	876 021	1 613 282
Fines and penalties	-	515 584	-	515 584
Gender, Youth, Children & Senior Citizen	-	165 815	-	165 815
Grants & Subsidies - ACIP Water*	-	48 678 231	-	48 678 231
Grants & Subsidies - Disaster Management	-	2 043 135	-	2 043 135
Grants & Subsidies - Extended Public Works	2 343 709	1 048 195	2 343 709	1 048 195
Grants & Subsidies - Jozini RHIG Sanitation	3 508 772	7 013 596	3 508 772	7 013 596
Grants & Subsidies - Rural Transport Management	-	403 825	-	403 825
Grants & Subsidies - Mseleni Ground Nuts	359 071	749 347	359 071	749 347
Grants & Subsidies - MSIG Operational Costs	-	385 550	-	385 550
Grants & Subsidies - Umhlosinga Development Agency	-	-	5 558 077	3 000 000
Hire of Plant & Equipment	18 985 125	2 234 434	18 985 125	2 234 434
Entertainment	13 745	18 784	13 745	18 784
Legal Fees	5 111 381	3 195 138	5 111 381	3 195 138
Fleet	11 000	3 000	11 000	3 000
Licences	307 667	574 592	307 667	574 592
Other expenses	3 326 347	2 692 989	3 326 347	2 692 989
Mayoral Descretionary Fund	-	26 169	-	26 169
Medical expenses	45 500	43 904	45 500	43 904
Municipal Health	58 280	12 492	58 280	12 492
Operation Turn Around	123	599 590	123	599 590
Consumables	64 899	15 992	-	-
Insurance	31 933	37 612	-	-
Conferences and seminars	31 274	10 338	-	-
Postage and courier	1 556	1 621	1 012	961
Publicity	293 780	26 419	293 780	26 419
Training	64 205	397 363	13 679	397 363
Printing and stationery	573 141	36 048	551 629	20 803
Royalties and license fees	296 000	-	296 000	-
Sports DC27	489 115	135 605	489 115	135 605
Small tools	216 718	8 712	212 015	3 770
Systems Support	2 459 042	525 705	2 459 042	525 705
Telephone and fax	33 784	1 232 679	-	1 221 155
Tourism Projects	-	300 000	-	300 000
Inventory expensed - Umhlathuze Water	365 253	7 213 767	-	6 445 857
Inventory loss	-	27 434 751	-	27 434 751
Community and Social services	2 500	-	2 500	-
Electricity and Water	20 344	-	-	-
Arts and Culture	5 486	4 864	-	-
VAT impairment	-	1 424 799	-	1 424 799
Uniforms	76 286	-	74 964	-
Events Organisations	-	1 000	-	1 000
	<b>47 308 449</b>	<b>118 412 583</b>	<b>51 034 815</b>	<b>119 731 913</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 29. General expenses (continued)

\*R48 678 231 was incurred by the municipality during the 2015 financial year for the provision of VIP toilets. These toilets were handed over to the community in the prior year and were expensed from assets under construction. Refer to note 8.

\*\*During the 2017 financial year, telephone and fax expenses for the controlling entity were all reclassified to contacted services (Note 28) and are disclosed under sub line item communication.

### 30. Taxation

#### Major components of the tax expense

##### Current

Local income tax - current period	-	44 035	-	-
Current	-	44 035	-	-
Deferred	-	-	-	-

### 31. Tax paid

Balance at beginning of the year	(44 035)	-	-	-
Current tax for the year recognised in surplus or deficit	-	(44 035)	-	-
Balance at end of the year	-	44 035	-	-
	<b>(44 035)</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 32. Cash generated from operations

Surplus	160 106 950	134 145 408	154 979 646	132 672 319
<b>Adjustments for:</b>				
Depreciation and amortisation	37 911 260	36 515 366	37 751 156	36 347 769
Interest income	(5 305 018)	(7 323 413)	(5 115 213)	(7 214 594)
Finance costs	1 423 952	2 352 023	1 339 122	2 225 598
Debt impairment	5 262 800	18 465 364	5 262 800	18 465 364
Movements in defined benefit obligations	877 000	1 282 000	877 000	1 282 000
VIP toilets expensed (refer to note 29)	-	48 678 231	-	48 678 231
Donations received in kind (refer to note 8)	(4 173 393)	-	(4 173 393)	-
Movement in tax receivable and payable	(44 035)	44 035	-	-
<b>Changes in working capital:</b>				
Inventories	12 078 072	23 572 430	12 078 072	23 572 430
Receivables from exchange transactions	(4 944 546)	23 568 696	(4 359 971)	22 598 764
Other receivables from exchange transactions	1 467 269	(10 150 665)	1 467 269	(10 150 665)
Payables from exchange transactions	(180 817)	22 189 202	(1 178 767)	24 305 561
VAT	(5 594 930)	(27 683 568)	(5 204 720)	(27 446 652)
Unspent conditional grants and receipts	38 610 500	(5 313 124)	40 474 227	(9 438 523)
Consumer deposits	184 457	12 110	184 457	12 110
	<b>237 679 521</b>	<b>260 354 095</b>	<b>234 381 685</b>	<b>255 909 712</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 33. Prior period errors

#### Error 1

Receivables from exchange transactions were overstated in the prior year due incorrect recognition of interest totaling R13 001 668 on overdue payments from customers. The interest was never charged to individual customers and no communication was sent to customers to notify them the intention to charge them interest on overdue amounts. The error was corrected by reversing the interest receivable incorrectly raised in prior year.

The full amount raised as interest receivable on overdue amounts was also included in the allowance for doubtful debts in the 2016 financial year and the provision was accordingly reversed. Therefore the net effect of this error on both the statement of financial position and statement of financial performance is R0. Receivables from exchange transactions were also overstated as a result of error on preparation of financial statements. The total amount of the error was R15 682 585. This amount was incorrectly included in receivables (WSSA debtors) and accumulated surplus and was reversed accordingly in the current year. A further R608 567 was incorrectly recognised as income and included as debtors from WSSA.

Other receivables from exchange transactions were incorrectly impaired in the prior year by R7 740 285

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

Decrease in gross receivables from exchange transactions	-	(29 292 820)	-	(29 292 820)
Decrease in allowance for doubtful debts	-	(13 001 668)	-	(13 001 668)
Decrease in impairment on other receivables	-	(7 740 285)	-	(7 740 285)
Decrease in accumulated surplus	-	(3 602 474)	-	(3 602 474)

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 33. Prior period errors (continued)

#### Statement of financial performance

Decrease in interest revenue	-	(5 288 280)	-	(5 288 280)
Increase in allowance for doubtful debts expense	-	6 256 494	-	6 256 494
Decrease in service charges revenue	-	(608 567)	-	(608 567)

#### Error 2

Payables from exchange transactions were overstated in the prior year due to invoices that were double accounted for in 2015 financial year going back.

Actuarial losses on long service awards were also understated by R80 060.

The effect of the adjustments is as follows.

#### Statement of financial position

Decrease Trade payables	-	(3 366 719)	-	(3 366 719)
Decrease in VAT input	-	(242 499)	-	(242 499)
Increase in equity	-	2 657 078	-	2 657 078
Increase in defined benefit plan obligation	-	80 060	-	80 060

#### Statement of financial performance

Increase in employee costs (long service awards provision)	-	80 060	-	80 060
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#### Error 3

Property, plant and equipment and intangible assets were understated in prior year due to fixed asset register that was not accurately maintained. Some invoices for property plant and equipment amounting to R1 327 864 were also incorrectly not accrued in the 2015 financial year.

This error was corrected in the current year. The net effect of the adjustment is as follows:

#### Statement of financial position

Decrease in Property, plant and equipment	-	(35 625 465)	-	(35 625 465)
Increase in intangible assets	-	20 495	-	20 495
Decrease in accumulated surplus	-	36 932 834	-	36 932 834
Increase in payables	-	(1 327 864)	-	(1 327 864)

#### Error 4

An invoice relating to 2014/15 financial period for the Municipal entity was only received in the 2016/17 financial period and was never accrued for. This error was adjusted retrospectively.

The net effect of the adjustment is as follows:

#### Statement of financial position

Increase in payables	-	102 435	-	-
Decrease in accumulated surplus	-	(102 435)	-	-

### 34. Prior-year adjustments

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior-year adjustments:

#### Statement of financial position - extract

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 34. Prior-year adjustments (continued)

#### Controlling entity - 2016

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions		74 982 319	(16 291 152)	58 691 167
Other receivables from exchange transactions		3 757 395	7 740 285	11 497 680
VAT receivable		45 744 421	(242 499)	45 501 922
Property, plant and equipment	1	660 976 184	(35 625 465)	625 350 719
Intangible assets		365 307	20 495	385 802
Payables from exchange transactions		249 994 654	(2 038 855)	247 955 799
Defined benefit plan obligation		5 865 940	80 060	5 946 000
Accumulated surplus	1	661 207 580	(42 439 540)	618 768 040
		<b>3 702 893 800</b>	<b>(88 796 671)</b>	<b>3 614 097 129</b>

#### Statement of financial performance - extract

#### Controlling entity - 2016

	Note	As previously reported	Correction of error	Restated
Service charges revenue		23 334 365	(608 567)	22 725 798
Interest income		12 502 873	(5 288 280)	7 214 593
Employee related costs (long service awards provision)		127 407 232	80 060	127 487 292
Debt impairment expense		12 208 870	6 256 494	18 465 364
<b>Net effect on surplus for the year</b>		<b>175 453 340</b>	<b>439 707</b>	<b>175 893 047</b>

### 35. Comparative figures

Comparative figures have been reclassified as follows:

- Taxation payable for the economic entity was reclassified from trade and other payables and disclosed separately.
- Interest accrual on DBSA loan was reclassified from long term portion to current portion.

The effects of the reclassification are as follows:

#### Economic entity

#### Statement of financial position - extract

	Comparative figures previously reported	Reclassification on	After reclassification
Payables from exchange transactions (after prior period adjustments)	248 649 128	(44 035)	248 605 093
Tax payable	-	44 035	44 035
Current portion of loans	839 102	177 382	1 016 484
Non-current loans	7 225 468	(177 382)	7 048 086
<b>Total</b>	<b>256 713 698</b>	<b>-</b>	<b>256 713 698</b>

#### Controlling entity

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 35. Prior-year adjustments (continued)

#### Statement of financial position - extract

	Comparative figures previously reported	Reclassification on	After reclassification
Current portion of loans	839 102	177 382	1 016 484
Non-current loans	7 225 468	(177 382)	7 048 086
<b>Total</b>	<b>8 064 570</b>	<b>-</b>	<b>8 064 570</b>

### 36. Unauthorised expenditure

Opening balance	213 475 910	178 548 229	213 475 910	178 548 229
Add: Unauthorised expenditure - Current year	72 731 586	34 927 618	72 731 586	34 927 618
	<b>286 207 496</b>	<b>213 475 847</b>	<b>286 207 496</b>	<b>213 475 847</b>

Unauthorised expenditure in the current financial year was incurred as a result of expenditure which exceeded the approved budget. No disciplinary actions or criminal proceedings were instituted due to reasons provided on Appendix A.

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

### 37. Fruitless and wasteful expenditure

Opening balance	8 971 561	8 329 553	8 845 136	8 329 553
Add: Fruitless and wasteful expenditure - Current year	566 112	642 008	481 282	515 583
	<b>9 537 673</b>	<b>8 971 561</b>	<b>9 326 418</b>	<b>8 845 136</b>

Fruitless and wasteful expenditure comprised interest and penalties relating to SARS EMP declarations and late payment of creditors.

No disciplinary actions or criminal proceedings were instituted as a result of fruitless expenditure incurred.

### 38. Irregular expenditure

Opening balance	367 995 469	132 094 334	1 550 748 518	1 313 437 186
Add: Irregular Expenditure - current year	111 600 764	237 560 487	111 387 128	237 311 395
Written off by board	-	(1 659 352)	-	-
	<b>479 596 233</b>	<b>367 995 469</b>	<b>1 662 135 646</b>	<b>1 550 748 581</b>

No disciplinary actions or criminal proceedings were instituted as a result of irregular expenditure incurred.

### 39. Additional disclosure in terms of Municipal Finance Management Act

#### Material losses

Opening balance	28 198 445	763 694	28 198 445	763 694
Add: Material losses - Current year	-	27 434 751	-	27 434 751
	<b>28 198 445</b>	<b>28 198 445</b>	<b>28 198 445</b>	<b>28 198 445</b>

No material losses were incurred in the current year. The municipality recognised inventory losses for the comparative period. Inventory losses incurred in the prior year were as a result of water pipe movements which could not be accounted and were included in general expenses.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

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

#### Audit fees

Opening balance	34 753	44 292	-	4 102
Current year subscription / fee	3 879 109	3 705 077	3 463 422	3 067 101
Amount paid - current year	(3 894 065)	(3 710 514)	(3 416 464)	(3 067 101)
Amount paid - previous years	-	(4 102)	-	(4 102)
	<b>19 797</b>	<b>34 753</b>	<b>46 958</b>	<b>-</b>

#### PAYE and UIF

Opening balance	2 193 973	1 040 137	1 483 426	923 319
Current year subscription / fee	20 776 108	21 166 129	19 588 062	20 188 286
Amount paid - current year	(21 727 176)	(18 972 156)	(19 508 240)	(18 704 860)
Amount paid - previous years	(1 216 130)	(1 040 137)	(1 483 426)	(923 319)
	<b>26 775</b>	<b>2 193 973</b>	<b>79 822</b>	<b>1 483 426</b>

#### Pension and Medical Aid Deductions

Opening balance	4 095 467	4 010 328	4 095 467	4 010 328
Current year subscription / fee	29 781 655	18 489 076	28 298 100	17 175 107
Amount paid - current year	(27 415 121)	(14 393 609)	(25 931 566)	(13 079 640)
Amount paid - previous years	(4 095 467)	(4 010 328)	(4 095 467)	(4 010 328)
	<b>2 366 534</b>	<b>4 095 467</b>	<b>2 366 534</b>	<b>4 095 467</b>

#### SALGA Fees

SALGA fees paid	1 271 884	1 665 784	1 271 884	1 665 784
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#### VAT

VAT receivable	51 610 577	46 015 647	50 706 642	45 501 922
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VAT output payables and VAT input receivables are shown in note . The VAT return for the month of November 2016 was submitted late.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016
<b>40. Commitments</b>				
<b>Authorised capital expenditure</b>				
<b>Approved and contracted for</b>				
• Infrastructure	296 218 857	331 066 994	296 218 857	331 066 994
• Airport establishment	6 000 000	4 000 000	-	-
• Scholl nutrition project	10 629 754	22 000 000	-	-
	<b>312 848 611</b>	<b>357 066 994</b>	<b>296 218 857</b>	<b>331 066 994</b>
<b>Total capital commitments</b>				
Approved and contracted for	312 848 611	357 066 994	296 218 857	331 066 994
<b>Authorised operational expenditure</b>				
<b>Approved and contracted for</b>				
• Operating expenditure	43 260 391	980 399	43 260 391	980 399
<b>Total operational commitments</b>				
Approved and contracted for	43 260 391	980 399	43 260 391	980 399
<b>Total commitments</b>				
<b>Total commitments</b>				
Authorised capital expenditure	312 848 611	357 066 994	296 218 857	331 066 994
Authorised operational expenditure	43 260 391	980 399	43 260 391	980 399
	<b>356 109 002</b>	<b>358 047 393</b>	<b>339 479 248</b>	<b>332 047 393</b>
<b>Operating leases - as lessee (expense)</b>				
<b>Minimum lease payments due</b>				
- within one year	925 635	798 610	876 732	749 707
- in second to fifth year inclusive	1 031 590	279 595	982 687	230 692
	<b>1 957 225</b>	<b>1 078 205</b>	<b>1 859 419</b>	<b>980 399</b>

## 41. Contingencies

### Disciplinary matters

As at 30 June 2017, the economic entity had pending employee related disciplinary matters. Should the outcome of both matters favour respective claimants, the economic entity may be liable for compensation of up to R300 000.

### Supplier disagreements

During the year ended 30 June 2017, suppliers provided services to the economic entity without approval of the work and they claimed for payment from the economic entity. The economic entity disputed the payment and there is a possibility that the suppliers will open a case against the economic entity. The total amount claimed by suppliers is R32 028 701.

The economic entity also has pending court cases with seven suppliers. Should the economic entity lose the cases, a total amount of 15 550 000 may be payable.



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 42. Related parties

#### Relationships

Umhlosinga Development Agency

Umhlosinga Development Agency is a municipal entity under the control of Umkhanyakude District Municipality to spearhead the economic development within the District.

#### Related party balances

##### Payables owing to related parties

Umhlosinga Development Agency	(5 030 158)	(5 030 158)
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#### Related party transactions

##### Transfers paid to related parties

Umhlosinga Development Agency	5 558 077	3 000 000
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### 43. Events after the reporting date

The municipality was not aware of any material events that may have occurred between 30 June 2017 and the date when the annual financial statements were authorised.

### 44. Risk management

#### Financial risk management

The economic entity's activities expose it to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk.

The economic entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the economic entity's financial performance.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 44. Risk management (continued)

#### Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they become due. The municipality ensures that adequate funds are available to meet its expected and unexpected financial commitments

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

#### Economic entity

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	844 512	852 256	2 599 119	2 755 981
Interest accrual on long term loan	158 800	-	-	-
Payables from exchange transactions	248 526 705	-	-	-
Consumer deposits	1 377 510	-	-	-
At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	839 102	844 512	2 573 398	3 630 175
Interest accrual on long term loan	177 382	-	-	-
Payables from exchange transactions	248 707 528	-	-	-
Consumer deposits	1 193 053	-	-	-

#### Controlling entity

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	844 512	852 256	2 599 119	2 755 981
Interest accrual on long term loan	158 800	-	-	-
Payables from exchange transactions	246 777 031	-	-	-
Consumer deposits	1 377 510	-	-	-
At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	839 102	844 512	2 573 398	3 630 175
Interest accrual on long term loan	177 382	-	-	-
Payables from exchange transactions	247 955 799	-	-	-
Consumer deposits	1 393 053	-	-	-

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 44. Risk management (continued)

#### Credit risk

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

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. The investments are diversified among the reputable commercial banks.

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. The utilisation of credit limits is regularly monitored.

The consumer debtors are settled on a monthly basis. Upon the new connections the consumers paid deposit in advance.

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

Financial instrument	Economic entity - 2017	Economic entity - 2016	Controlling entity - 2017	Controlling entity - 2016
Receivables from exchange transactions	65 721 398	66 039 652	57 788 337	58 691 167
Other receivables from exchange transactions	10 030 411	11 497 680	10 030 411	11 497 680

#### Market risk

##### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings from DBSA.

At year end, financial instruments exposed to interest rate risk were as follows:

- Loan from Development Bank of South Africa.
- FNB Bank Call deposits.
- FNB Bank, ABSA and Ithala Bank Notice deposits.

### 45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the consolidated annual financial statements.

Items of goods and services were procured during the current financial year which deviated from the provisions of paragraph 12(1)(d)(i) as reflected above. As at 30 June 2017, deviations from Municipal Supply Chain Management Regulations amounted to R14 995 900.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

### 46. Other 2

#### Distribution losses

Electricity distribution losses	9 950 568	7 775 791	9 950 568	7 775 791
---------------------------------	-----------	-----------	-----------	-----------

	2017		2016	
	kWh units	Rand	kWh units	Rand
Electricity distribution loss calculated as:				
Electricity purchases	11 456 649	15 359 979	11 357 178	12 659 699
Less: Electricity sales	(4 701 621)	(5 409 411)	(4 933 146)	(4 883 908)
Subtotal	6 755 028	9 950 568	6 424 032	7 775 791
	<b>6 755 028</b>	<b>9 950 568</b>	<b>6 424 032</b>	<b>7 775 791</b>

	2017		2016	
	Kl	Rand	Kl*	Rand
Water distribution loss calculated as:				
	6 218 683	30 382 985	-	17 745 527
Subtotal	6 218 683	30 382 985	-	17 745 527

\*Meter readings as at 30 June 2016 for water were not conducted therefore the kilolitre losses could not be disclosed.

### 47. Going concern

As at 30 June 2017, the economic entity had accumulated surplus of R 1 781 483 567 (Controlling entity R1 773 747 687), however, we draw attention to the fact that the municipality's current liabilities exceeds its current assets by R 35 431 138 (Controlling entity R36 270 713).

The consolidated 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.

The ability of the economic entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the economic entity.

### 48. Actual operating expenditure versus budgeted operating expenditure

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

### 49. Actual capital expenditure versus budgeted capital expenditure

Capital expenditure	Original budget	Adjustment	Final budget	Actual amounts on a comparable basis	Difference between final budget and actual
	267 516 900	16 925 000	284 441 900	236 408 896	48 033 004

R284 million was budgeted for capital expenditure for 2016/17, however, actual expenditure reported per Note 8 was below the final budget by approximately 16.89%.

# **ANNEXURE B**

AUDITOR GENERAL'S REPORT – JUNE 2017

Auditor-General of South Africa

uMkhanyakude District Municipality and  
its entity – final audit report 2016-17

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the uMkhanyakude District Municipality and its entity**

## **Report on the audit of the consolidated and separate financial statements**

### **Adverse opinion**

1. I have audited the consolidated and separate financial statements of the uMkhanyakude District Municipality and its entity set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2017, and the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this report, the consolidated and separate financial statements do not present fairly, in all material respects, the consolidated and separate financial position of the uMkhanyakude District Municipality and its entity as at 30 June 2017, and their financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

### **Basis for adverse opinion**

#### **Property, plant and equipment**

3. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property, plant and equipment due to the status of the accounting records and the non-submission of information in support thereof. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R1,83 billion (2016: R1,63 billion) in note 8 to the consolidated and separate financial statements.

#### **Service charge revenue and receivables from exchange transactions**

4. The municipality did not account for revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. The recognition criteria for revenue from exchange transactions were not met due to inadequate internal controls in the billing system of customers. Additionally, there was a resultant impact on accumulated surplus. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R19,54 million (2016: R22,73 million) in note 16 and the related receivables from exchange transactions stated at R65,72 million (2016: R66,04 million) in note 4 to the consolidated and separate financial statements as it was impractical to do so.

### Unspent conditional grants and receipts

5. I was unable to obtain sufficient appropriate audit evidence regarding the accumulation of unspent conditional grants at year-end, due to the status of the accounting records. I was unable to confirm the grant liability by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the accumulated surplus and the related unspent conditional grant liability stated at R72,99 million in note 13 to the consolidated and separate financial statements.

### Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence that payables from exchange transactions had been properly accounted for, due to the status of accounting records. I was therefore unable to determine the resultant impact of this misstatement on expenditure. I was unable to confirm the payables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables stated at R248,53 million in note 11 to the consolidated and separate financial statements.

### Expenditure – repairs and maintenance

7. The municipality did not correctly classify expenditure for repairs and maintenance based on their nature, in accordance with GRAP 1, *Presentation of financial statements*. Adequate systems and controls were not in place to ensure that all repairs and maintenance expenditure was properly accounted for, these expenses have been capitalised on property, plant and equipment. I was therefore unable to determine the resultant impact of this misstatement on repairs and maintenance on property, plant and equipment as well as accumulated surplus. Consequently, I was unable to determine the full extent of the repairs and maintenance expenditure of R70,86 million as shown in note 26 to the consolidated and separate financial statements, as it was impractical to do so.

### Commitments

8. The municipality did not disclose capital commitments in accordance with GRAP 1, *Presentation of the financial statements*. This was due to the breakdown of internal controls over records in respect of commitments as disclosed in note 40 to the consolidated financial statements. I was therefore unable to determine the full extent of the misstatement of commitments stated at R312,85 million, as it was impractical to do so.

### Water and electricity losses

9. I was unable to obtain sufficient appropriate audit evidence for the water and electricity losses stated at R30,38 million (2016: R17,75 million) and R9,95 million (2016: R7,78 million), respectively, in note 46 to the consolidated and separate financial statements. This was due to inadequate systems and processes for the recording and monitoring of these losses. I could not confirm the disclosed losses through alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to the water and electricity losses disclosed in the consolidated and separate financial statements.



## **Irregular expenditure**

10. The municipality did not have adequate systems and controls to ensure that irregular expenditure incurred was properly accounted for in the correct period. This resulted in irregular expenditure being misstated by an unknown amount. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as irregular expenditure. I could not confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure incurred, stated at R111,60 million (2016: R237,56 million), in note 38 to the consolidated and separate financial statements as it was impractical to do so.

## **Context for the opinion**

11. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this report.
12. I am independent of the municipality and its entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
13. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

## **Financial sustainability**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.
15. I draw attention to note 47 of the consolidated and separate financial statements which indicates that the current liabilities exceeded the current assets by R35,43 million. This along with the other factors indicated in the note indicates that there is material uncertainty with regards to the going concern basis of accounting and as a result the municipality as well as its entity may be unable to discharge obligations in the foreseeable future.

## **Unaudited disclosure notes**

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

## **Responsibilities of the accounting officer for the consolidated and separate financial statements**

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the municipality and its entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality and its entity or cease operations, or there is no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the consolidated and separate financial statements**

19. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
20. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

<b>Report on the audit of the annual performance report</b>
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## **Introduction and scope**

21. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality and its entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report for the municipality and its entity for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
Basic service delivery and infrastructure investment	x – x
Local economic development	x – x

24. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. The material findings in respect of the usefulness and reliability of the selected objective is as follows:

#### **KPA B: basic service delivery and infrastructure investment**

##### **Number of assessment reports on provision of repairs for water schemes submitted to the technical services portfolio committee – performance indicator not well defined and reliable**

26. The source information for the achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI).
27. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of three reports on provisions for repairs and maintenance. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of three reports.

##### **Number of households earning less than R1 100 per month with access to free basic water – performance indicator not well defined and reliable**

28. The method of calculation for the achievement of the planned indicator was not clearly defined, as required by the FMPPI.
29. The reported achievement for the indicator was misstated as the evidence provided estimated 3 492 and not 4 365 number of households with access to free basic water as reported.

##### **Number of households earning less than R1 100 per month with access to free basic sanitation – performance indicator not reliable**

30. The reported achievement for the indicator was misstated as the evidence provided estimated 3 126 and not 5 847 households earning less than R1 100 per month with access to free basic sanitation as reported.
31. I did not raise any material findings on the usefulness and reliability of the reported performance information for the local economic development.

#### **Other matter**

32. I draw attention to the matter below.

#### **Achievement of planned targets**

33. The annual performance report on pages x to x includes information on the achievement of planned targets for the year and explanations provided for the overachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 25 to 29 of this report.

#### **Adjustment of material misstatements**

34. I identified material misstatements in the consolidated annual performance report submitted for auditing. These material misstatements were on the reported performance information of local economic development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

### **Report on the audit of compliance with legislation**

#### **Introduction and scope**

35. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality and its entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
36. The material findings on compliance with specific matters in key legislation are as follows:

#### **Annual financial statements**

37. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items in the submitted financial statements were subsequently corrected and some supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the consolidated and separate financial statements receiving an adverse audit opinion.

## **Strategic planning and performance management**

- 38. The performance management system and related controls at the municipality were not maintained or were inadequate, as it did not describe how the performance measurement and reporting processes should be conducted and organised, as required by municipal planning and performance management regulation 7(1).
- 39. The performance of the entity against the agreed performance objectives and indicators was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)(MSA).

## **Consequence management**

- 40. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2) of the MFMA.

## **Human resource management and compensation**

- 41. Job descriptions were not established for all posts in which appointments were made by the municipality in the current year, in contravention of section 66(1)(b) of MSA.
- 42. The post for which the employee is appointed by the municipality was not provided for in the approved staff establishment, as required by section 66(3) of MSA.

## **Revenue management**

- 43. The municipality did not have a management, accounting and information system that recognised revenue when it was earned and accounted for debtors and receipts of revenue, as required by section 64(2)(e) of the MFMA.
- 44. The municipality does not have an effective system of internal control for debtors and revenue, as required by section 64(2)(f) of the MFMA.

## **Expenditure management**

- 45. Money owed was not always paid within 30 days, as required by section 65(2)(e) and 99(2)(b) of the MFMA.
- 46. Effective steps were not taken to prevent irregular expenditure amounting to R111,60 million as disclosed in note 38 to the consolidated and separate financial statements, as required by section 62(1)(d) and 95(d) of the MFMA. The majority of the irregular expenditure arose because the municipality procured goods or services with a transversal value above R200 000 without inviting competitive bids.
- 47. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R0,56 million, as disclosed in note 37 to the consolidated and separate financial statements, in contravention of section 62(1)(d) and 95(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by late payment of the creditors.

## **Asset management**

48. An effective system of internal control for assets including an asset register was not in place at the municipality, as required by section 63(2)(c) of the MFMA.

## **Procurement and contract management**

49. Sufficient appropriate audit evidence could not be obtained that contracts at the municipality were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by Municipal Supply Chain Management regulation, 2005 (MSCMR) 13(c). Similar non-compliance was also reported in the prior year.
50. Sufficient appropriate audit evidence could not be obtained that quotations at the municipality were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by MSCMR 43.
51. Some of the invitations for competitive bidding at the municipality were not advertised for a required minimum period of days, in contravention of MSCMR 22(1) and 22(2).
52. The preference point system at the municipality was not applied for some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa (Act No. 5 of 2000).
53. The contract performance and monitoring measures and methods at the municipality were not sufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
54. Some of the competitive bids at the municipality were adjudicated by a bid adjudication committee that was not composed in accordance with MSCMR 29(2).

## **Other information**

55. The accounting officer of the municipality and its entity is responsible for the other information. The other information comprises the information included in the consolidated annual report, which includes the mayor's foreword, municipal manager's overview and performance highlights. The other information does not include the consolidated and separate financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported on in the auditor's report.
56. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
57. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

58. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

#### Internal control deficiencies

59. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.

60. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the adverse opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

#### Leadership

61. The leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations. The leadership did not ensure that employees fully understood all policies and procedures, therefore preventing the effective implementation thereof. The leadership was also slow to respond to key internal control deficiencies highlighted in action plans.

#### Financial and performance management

62. Management did not ensure that regular, accurate and complete financial and performance reports were prepared, which were supported and evidenced by reliable information. Due to the high vacancy rate at senior management level, internal controls designed to prevent, detect and address risks were not implemented and regularly monitored, which had an impact on proper record keeping, processing and reconciling controls, and compliance monitoring.

#### Governance

63. Risk management was inadequate to mitigate internal control deficiencies.

*Auditor General*

Pietermaritzburg

19 December 2017



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## **Annexure – auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality and its entity's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality and its entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality and its entity's to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation



- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

#### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

# **ANNEXURE C**

AUDIT ACTION PLAN 2017/2018

UMKHANYAKUDE DISTRICT MUNICIPALITY  
2016/2017 AUDIT RESPONSE PLAN - AG REPORT - MARCH 2018

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
<b>PROPERTY, PLANT AND EQUIPMENT</b>							
A.1	Supporting documentation for the WIP journal amounting to R21,247,247.92 have not been provided to Auditors and resulted to scope limitation. The journal relates to WIP projects that were written-off and expensed.	No segregation existed over preparation, review, authorisation. Lack of pre-approved Journal Forms, which could be sequentially numbered and containing levels of authority.	(i) Develop a sequentially numbered Journal Entry Forms and shall be put to use with immediate effect. (ii) Develop a standard operating procedures to manage the journal entries posted into the Accounting System and those assigned to the procedures shall sign as proof of acceptance. (iii) Investigate the journal entry and report progress on regular bases. (iv) All processed journals to be safely kept in accordance with NARA and related policies.	* The compilation of Standard operating procedures (SOPs) is in progress. * Sequentially numbered Journal Entry form has been developed and is in use.	CFO	Partially Resolved	30-Apr-18
A.2	Payment vouchers to support the WIP transfers could not be provided to AG. The misstatement is material. The following projects has reference: 1. Mtubatuba water treatment works. 2. Ingwavuma Prison Electrical Upgrade 3. Drought relief. 4. Rehabilitation of Existing Shemula WS Water distribution. 5. Hluhluwe water upgrade phase 1 6. Fencing of IYK water project. 7. Mtuba Water Infrastructure. 8. Municipal stores and garages 9. Dwelling Simplex or Duplex	(i) lack of credible Contract, Project and Expenditure management	* Compile detailed Contract Register supported by reliable evidence including payment vouchers to support project progress and completion certificates to support the final payment. * Jnl entry to reverse to WIP "Hluhluwe Water Upgrade Phase 1" shall be processed with immediate effect. * Internally investigate the project "Fencing of IYK Water Project and Mtuba Water Infrastructure" to establish the progress of the projects as well as expenditure to date (supported with sufficient evidence)	Project files are being developed to ensure progress reports supported by Expenditure documents (invoices, proof of payments, etc.) as well as completion certificate.	CFO	Not Resolved at all	30-Jun-18

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A.3	<p>Movable assets could not be physically verified, subsequent information submitted for audit indicated that the assets were returned back to the supplier, however, the municipality had not taken adequate steps and processes to remove the assets in the asset register at year end. the finding relates to the following vehicles:</p> <ol style="list-style-type: none"> <li>1. Water Tanker TATA 1918C - NUB 5326</li> <li>2. Water Tanker TATA 1918C - NUB1681</li> <li>3. Water Tanker TATA 1918C - NUB 2372</li> <li>4. Water Tanker TATA 1918C - NUB7437</li> <li>5. Water Tanker TATA 1918C - NUB7439</li> <li>6. Water Tanker TATA 1918CEX2</li> <li>7. Water Tanker TATA 1918CEX2 - NUB7438</li> <li>8. Fire Truck NUB6071</li> </ol>	<p>It was proper not to remove the assets from the asset register. Assets previously included in the asset register can only be removed out by way of a council resolution. The Council did not resolve on the matter in the past.</p>	<p>*Submit a detailed report to Council requesting the removal of assets from the asset register.</p> <p>*Immediately update the insurance portfolio, to ensure retired, disposed, and or sold assets are not insured to further avoid fruitless and wasteful expenditure resulting from over-insurance</p>	None	CFO	Partially Resolved	31-Mar-18
A.4	<p>the following projects with a total value of R38.9-million could not be physically verified:</p> <ol style="list-style-type: none"> <li>1. AUC00700: Water infrastructure</li> <li>2. AUC00706: Water infrusture</li> <li>3. AUC00242: Water infrastructure</li> <li>4. AUC00251: Water infrastructure</li> <li>5. AUC00610: Water Infrastructure</li> <li>6. AUC00241: Water infrastructure</li> <li>7. AUC00240: Water infrastructure</li> </ol>	<p>*Poor Records management.</p> <p>*Poor assets management</p> <p>*Poor financial administration</p>	<p>Review the Accounting records to understand the problem</p>	<p>A report from the Consultant has been received. This report indicated that the listed project needed to be reversed as they did not exist. The processed transactions did not qualify to be capitalised</p>	CFO	Not Resolved at all	30-Apr-18
ACCOUNTS RECEIVABLES (DEBTORS)							

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A.5	<p>Through the testing that was performed on revenue, we selected sample of customers from the meter listing, and traced to the billing report, AGSA noted that some customers were not included in the consolidated annual billing report, these are customers that were not billed during the year, thus the revenue that is recorded is not complete.</p> <p>Through the testing that was performed on revenue, we selected sample of meters from the meter listing report and noted that there were number of meters that were not allocated to customers.</p> <p>During the audit conducted on revenue, it was noted that the municipality did meter readings on meters that were disconnected for the following customers.</p>	<p>1. Lack of appropriate management of revenue;</p> <p>2. Lack of monthly reconciliations of billing data.</p>	<p>1. Physical verification of all water meters installed against the meter listing</p> <p>2. Perform meter reading on all meters as per the meter listing.</p> <p>3. Estimate readings where it is impractical to read meters</p>	<p>*Physical verification of water meters against meter listing has commenced.</p> <p>*Estimates in some meters have been implemented</p>	CFO	Partially Resolved	30-Jun-18
<b>UNSPENT CONDITIONAL GRANTS</b>							
A.6	<p>During the audit of the Unspent Conditional Grant it was noted that grants are disclosed cumulatively from previous years and they could not be verified if they are utilized or not. The effect above has resulted in the misstatement of revenue and the unspent conditional grant amount.</p>	<p>Applications has never been submitted to the funders to allow for rollovers. When funds are requested back by funders they are never paid. Business plans are not being appropriately implemented. Business plans are not on file.</p>	<p>* Compile a detailed register of grants which have been reported with no movements for more than 12 months by 31 March 2018</p> <p>* Repay grants that have been recalled by the funders by 30 June 2018 or according to the agreed payment plan.</p> <p>* Obtain business plans of all grants not recalled by funders by 30 April 2018.</p>	<p>Engagement with funders has commenced. Full report to be provided in the next meeting</p>	CFO	Partially Resolved	30-Jun-18

PROGRESS REPORT - RESPONSE PLAN - MARCH 2018

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
<b>ACCOUNTS PAYABLES (CREDITORS)</b>							
A.7	During the audit of payables from exchange transactions it was noted that the payroll suspense accounts were not cleared at year end. These accounts were also not cleared in the prior year. The balances of the suspense accounts are recurring from the prior year.	Suspense Accounts are not cleared on monthly bases. If cleared no internal controls to ensure sufficient evidence supporting the clearance is kept.	*Clear all suspense accounts with closing balances as at 30 June 2017 and submit the closeout report to CFO for review by 31 March 2018. * Monthly reconcile all suspense accounts and submit report to CFO for review. with effect from 01 March 2018	All suspense accounts emanating from previous years have been cleared. Current year suspense accounts are cleared on monthly bases.	CFO	Resolved	31-Mar-18
A.8	Documents were requested and not received for trade creditors as the RFI 30, the balance is material at R3,601,118.59	There were no internal controls in place over management of payment vouchers at all times.	* All payment vouchers to be sequentially numbered by March March 2018 * 100% audit of payment vouchers against sequence by June 2018 * Store payment vouchers to the server folders * Keep soft copies of all payment vouchers listed on the sequentially numbered register. * Submit all payment vouchers sequentially to registry for safe keeping on monthly bases by 30 June 2018	Keeping of payment vouchers to the Registry has not been implemented	CFO	Resolved	30-Jun-18
A.9	During the audit it was noted that expenditure was not paid within 30 days from date of receiving of the invoice which is in contradiction with the MFMA act:	During 2016/2017, the municipality was experiencing financial problems which resulted in payment delays. There was no consequences for delay in payment of invoices. FIFO was not implemented in processing of invoices for payment.	Invoice processing committee to sit twice a month no later than 10th and 25th each month to consider invoices * Where payments could not be made within the prescribed time frame, service providers will be advised accordingly, especially where additional information is required to authenticate the submitted invoice.	The system of paying creditors is being streamlined to ensure improved engagement with suppliers not paid on time.	CFO	Not Resolved at all	31-May-18
<b>REVENUE (INCOME)</b>							
A.10	A number of meters from the meter listing report were not allocated to customers and therefore we did not receive sufficient audit evidence to verify that customers were billed.	*Disconnected meters when old customer vacates are not re-allocated to new customers. * Project of installing new meters is not departmentally integrated	* Physical verification of water meters against the meter listing and assign a customer to each meter * Update the financial system with the verification report. * Meter reading performed to all meters verified by 30 June 2018	*Physical verification implementation plan is being finalised. The project will commence from april and will be completed by June 2018	CFO	Not Resolved at all	30-Jun-18

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A.11	during the audit conducted on revenue, it was noted that majority of consumer accounts were not billed as meter reading were not done for the customers selected. No sufficient evidence obtained to verify that customers were billed and revenue collected from customers.	This was due to capacity issues, our meter reading team is very small and has no allocated transport to perform the task. Meter readers at kwamsane, mtuabatuba and St. Lucia they use their own transport to get to the areas and on arrival they walk to read through the meters.	<ul style="list-style-type: none"> <li>* Perform meter reading of the selected sample at least three times by 30 June 2018</li> <li>* Formalise the reading contract with the Contractor at St. Lucia and Riverview Mtubatuba by 31 March 2018.</li> <li>* For these areas as well as on the selected sample, perform average and back billing to ensure 12 month billing is achieved.</li> </ul>	*Physical verification implementation plan is being finalised. The project will commence from april and will be completed by June 2018	CFO	Not Resolved at all	30-Jun-18
A.12	Through the audit that was done on revenue and enquiry with management, it was noted that the municipality recognises revenue based on cash, money that has been received, further to this the municipality does not do meter readings to ensure that the customers are billed based on what they have used (usage) rather than average billing.	Revenue from electricity sales is prepaid. Reports from Contour were not used to recognise revenue. Revenue was only based on cash received rather than recognition using contour report.	<ul style="list-style-type: none"> <li>* Monthly integration of contour to sage for revenue transactions.</li> <li>* Monthly reconciliation of Contor to sage</li> </ul>	Monthly reconciliation and manual integration has been implemented.	CFO	Resolved	31-Mar-18
<b>EXPENDITURE</b>							
A.13	Documents were requested and not received for trade creditors as the RFI 30, the balance is material at R3,601,118.59	There were no internal controls in place over management of payment vouchers at all times.	<ul style="list-style-type: none"> <li>* All payment vouchers to be sequentially numbered by March March 2018</li> <li>* 100% audit of payment vouchers against sequence by June 2018</li> <li>* Store payment vouchers to the server folders</li> <li>* Keep soft copies of all payment vouchers listed on the sequentially numbered register.</li> <li>* Submit all payment vouchers sequentially to registry for safe keeping on monthly bases by 30 June 2018</li> </ul>	Keeping of payment vouchers to the Registry has not been implemented	CFO	Resolved	30-Jun-18

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A.14	During the audit of repairs and maintenance expense it was noted that the expenditure was wrongly classified as repairs and maintenance and not capitalised as capital assets.	Checklist to monitor the AFS compilation was not monitored.	* Development of comprehensive AFS checklist by 31 March 2018 * Prior period error correction prepared and ready for processing by 31 March 2018	in progress. Classification will be achieved when finalising 2017/18 AFS	CFO	Partially Resolved	30-Jun-18
<b>AFS DISCLOSURE</b>							
A.15	During the audit of capital commitments, it was confirmed that the amounts disclosed are not accurate, based on the evidence provided.	Checklist to monitor the AFS compilation was not monitored.	* Development of comprehensive AFS checklist by 31 March 2018 * Prior period error correction prepared and ready for processing by 31 March 2018	Service provider for PASTEL SAGE is on site to assist in implementation of SCM module. This will ensure we are able to accurately report on commitments	GM: Technical	Partially Resolved	30-Jun-18
A.16	during the completeness testing of irregular expenditure selcted additional batches from the floor and performed SCM procedures to verify if the transaction is free from material non-compliance, however in our testing we identified transactions that are irregular i.e (no three quotations, no tax clearance certificate, and no declaration of interest forms) and which were not included in the irregular expenditure listing.	Checklist to monitor the AFS compilation was not monitored.	* Prepare a prior period error report using the report that was comprehensively prepared by an external service provider by 31 March 2018 * 100% voucher audit to identify IUFWE and update the registers by 30 June 2018.	Voucher Audit to identify elements of IUFWE is in progress, this will assist to ensure completeness of reported IUFWE	CFO	Partially Resolved	30-Jun-18
A.17	During the audit of irregular expenditure, it was found that the expenditure which was discovered in the prior years were included in the irregular expenditure register.	Checklist to monitor the AFS compilation was not monitored.	* Prepare a prior period error report using the report that was comprehensively prepared by an external service provider by 31 March 2018 * 100% voucher audit to identify IUFWE and update the registers by 30 June 2018. * Monthly reports to ExCo on all registers	Voucher Audit to identify elements of IUFWE is in progress, this will assist to ensure completeness of reported IUFWE	CFO	Partially Resolved	30-Jun-18



No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A.18	Based on the audit work performed there was no reliable way to determine whether the water losses were controllable or not as the municipality does not read bulk meters installed at both extraction and output points, further more the quantity of billed authorised consumption and unbilled authorised consumption per water balance schedule were not verifiable as municipality does not read the installed meter in the households. furthermore evidence to support water losses amount was not provided as per request for information (RFI22), thus, the quantity of 6 218 683 kl and amount of R30.4-million is not reliable.	*No system in place to reconcile water purchases from DWS *No system in place to reconcile water purchases from CH Sinekal *No system in place to reconcile water leaks from treatment works to end consumer.	Procure meters to monitor water purchases from DWS and CH Sinekal	The service providers have been recently appointed. They will also ensure the reconciling system is in place to monitor and record water losses	GM: Technical	Partially Resolved	31-May-18
A.19	Based on the audit of revenue electricity meter readings, it was noted that not all meters are read and estimates are not calculated for the months when meters were not read. This indicates that the billing used to compute electricity losses is unreliable. Thus, the quantity of 6 755 028 kiliowatts and amount of R9.950-million is not reliable.	* No meter reading plan is implemented. * No consequences for not reading meters is implemented	* Develop a monthly reading plan * ensure all electricity conventional meters are read	All conventional meters are read. Where not practical, estimates are made	CFO	Resolved	31-Mar-18

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
PROCUREMENT AND CONTRACTS MANAGEMENT							
A.20	During the audit of procurement contract and management, it was noted that the bids were were advertised less than a required period and no valid explanation indicating the reasons of advertising for less than a required period and therefore the related payments have resulted in irregular expenditure. <i>The following contractors are affected:</i> <i>* Sinethemba JV - SCMU006/2015/2016 R29,090,283.00</i> <i>* Fleet Horizon - SCMU004/2016/2017 - R15,017,815.00</i> <i>* Ernest &amp; Young - SCMU005/2016/2017 - R1,200,000.00</i> <i>* Pro-Secure - SCMU003/2016/2017 - R10,230,537.00</i> <i>* Ibutho Projects - SCMU0011/2016/2017 - R21,530,022.74</i> <i>* LR Civils - SCMU007/2015/2016 - R26,111,543.54</i> <i>* Sunset Beach - SCMU008/2015/2016 - R31,790,552.93</i>	There was no strict adherences to the SCM Regulation 22.	Ensure adherence to the SCM regulation 22 when tenders are advertised.	Resolved	CFO	Resolved	31-Jan-18
A.21	During the audit of procurement contract and management, it was noted that certain competitive bids were concluded without SCM practitioner being present in the BAC	Lack of understanding of application of SCM Reg.29(2)(	* The SCM manager to sit at II BAC meetings and must sign the attendance register as proof of attendance.	Resolved	CFO	Resolved	ongoing

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A.22	during the audit of procurement contract and management, it was noted that certain suppliers were awarded without a valid tax clearance certificate declared by SARS making an award to a supplier without SARS declaration that tax affairs of that company are in order irregular expenditure.	When awards were made to the following service providers SCM were not engaged to provide advice on processes to be followed. * Hluhluwe Convenience Centre; * National Health Laboratory; * Zululand FM; * Inyala Security; * Boss Development; * Nkankano Trading;	* No award should be made to any service provider without compliance to the SCM checklist with effect from 01 March 2018, * No award to be made to any service provider without an official order signed by CFO with effect from 01 March 2018 * Review of tender register to include relevant information to monitor the compliance with regulations on award of contracts and official orders by 31 March 2018.	Resolved	CFO	Resolved	30-Jun-18
A.23	During the resting of procurement and contract management, it could not be verified that the bid was awarded to the correct supplier as the source documents provided for audit were not reliable and relevant for us to recalculate the preference points and to verify the highest scoring supplier. therefore the payments to these suppliers have resulted to irregular expenditure.	When awards were made to the following service providers SCM were not engaged to provide advice on processes to be followed. * Zululand FM; * Inyala Security; * Makaton Motors	* No award should be made to any service provider without compliance to the SCM checklist with effect from 01 March 2018, * No award to be made to any service provider without an official order signed by CFO with effect from 01 March 2018 * Review of tender register to include relevant information to monitor the compliance with regulations on award of contracts and official orders by 31 March 2018. * Implementation of consequence management where deviations identified and proper reporting not adheared to. * Where contracts of certain service providers are still valid the contract shall be terminated to resolve the irregular expenditure component.	Resolved	CFO	Resolved	30-Jun-18

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A.24	During the testing of procurement and contract management, it was noted that certain suppliers did not declare for interest with regards to their employees being in the service of state or whether any of its directors, managers, principal shareholders or stakeholders is in the service of state or has been in the service of the state in the previous 12 months. these payments resulted in irregular expenditure.	When awards were made to the following service providers SCM were not engaged to provide advice on processes to be followed. * Zululand FM; * BZ Locksmith * Boss Development; * Nkankane Trading; * 27 years roben island; * Mandlezizwe Business Enterprises; and * Rennies Travel	* No award should be made to any service provider without compliance to the SCM checklist with effect from 01 March 2018, * No award to be made to any service provider without an official order signed by CFO with effect from 01 March 2018 * Review of tender register to include relevant information to monitor the compliance with regulations on award of contracts and official orders by 31 March 2018. * Implementation of consequence management where deviations identified and proper reporting not adhered to. * Where contracts of certain service providers are still valid the contract shall be terminated to resolve the irregular expenditure component.	Resolved	CFO	Resolved	30-Jun-18
A.25	During the audit, it was noted that registers relating to unauthorised, irregular, fruitless and wasteful expenditure did not have information about steps to recover the expenditure, write-off expenditure or whether the matter is still under investigation and any corrective action.	Template used to record IUFWE is not complete to record sufficient details regarding the IUFWE.	Review of the IUFWE register to address findings of AG. This shall be completed by 31 March 2018	Resolved	CFO	Resolved	31-Mar-18
A.26	Descrapancies were noted during the review of the contract register that was submitted fo audit: * it was noted that not all contracts contained in the register does have the contract award value * the expenditure incurred to date (30 June 2017) is not updated. * Current listing contains the contracts that had already expired.	The Municipality does not a competent personnel to manage and monitor contracts as per the requirements of the contract register.	* Designate or appoint Contract Management Officer which will then be responsible to manage the contract register by 30 June 2018. * Audit the current register to identify shortcomings and where necessary corrections made by 31 March 2018	The cleansing of the contract register is in progress and will be complited on target	CFO	Partially Resolved	30-Apr-18

PROGRESS REPORT - RESPONSE PLAN - MARCH 2018

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
<b>HUMAN RESOURCES MANAGEMENT</b>							
A.27	During the testing of employee cost, it was noted that appointments for employees were not conducted in accordance with the Policies and Procedures for appointment	Unavailability and unadherence to standard operating procedures in the implementation of HR Policies	Development of Standard Operating Procedures by 30 June 2018 and to adhere to recruitment and selection policies.	Resolved	GM: Corporate	Resolved	30-Apr-18
<b>PREDETERMINED OBJECTIVES</b>							
A. 28	Performance indicator not well defined	Poor oversight on non financial performance matters	SDBIPs for 2017/2018 have been reviewed	SDBIPs and IDP have been reviewed	MM	Resolved	30-Jun-18
A. 29	Information submitted for audit purposes was not sufficient to validate the desired impact	Poor oversight on non financial performance matters	There is improved oversight on non financial performance issues	Departments at all levels are involved in PMS	MM	Resolved	30-Jun-18
A. 30	insufficient information to validate VIP toilets	Physical verification of work done and portfolio of evidence is lacking	There is improved oversight on non financial performance issues	Project Manager has been appointed to oversee all projects.	MM	Partially Resolved	30-Jun-18
A. 31	inaccurate number of households receiving free basic sanitation (more was reported however upon physical verification less households were found - 8,86%	Physical verification of work done and portfolio of evidence is lacking	SDBIPs for 2017/2018 have been reviewed	in progress	MM	Resolved	30-Jun-18
<b>UMHLOSINGA DEVELOPMENT AGENCY</b>							
A.32	During the Audit it was noted that certain payments were not made within 30 days of receiving invoices	Umkhosinga Development Agency is faced with operating cashflow challenges	* Operating grant from Umkhanyakude should be transferred in two tranches in July and January * Quarterly financial reports should be discussed at ExCo and Council with firm resolutions * Quarterly Performance reports should be tabled at ExCo and Council with firm resolutions	in progress	MM	Not Resolved at all	30-Apr-18
A.33	During the audit it was noted that no steps were taken to prevent the repeat occurrence of irregular and fruitless expenditure.	Contract emanating from previous years. No new contracts resulting if UIFWE.	Detailed report shall be tabled to ExCo and Council	in progress	MM	Not Resolved at all	30-Jun-18
<b>OTHER - MATTERS NOT REPORTED AS FINDINGS BUT REQUIRE ATTENTION</b>							

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
B.34	During the planning phase of revenue and receivables, it was noted that reconciliations between Contour (prepaid electricity system) and the financial system are not performed on a regular basis.	Internal controls were not in place to ensure reconciliation of two systems is performed.	Resolved	Reconciliation between two systems is being performed with effect from October 2017	CFO	Resolved	30-Jun-18
B.35	During the audit conducted on revenue, it was noted that meter readings were done on meters that were disconnected for certain customers.	No register of connected meters maintained to ensure meter readers do not read meters that are disconnected.	<ul style="list-style-type: none"> <li>* Physical verification of water meters against the meter listing and assign a customer to each meter</li> <li>* Update the financial system with the verification report.</li> <li>* Meter reading performed to all meters verified by 30 June 2018</li> </ul>	*Physical verification implementation plan is being finalised. The project will commence from April and will be completed by June 2018	CFO	Not Resolved at all	30-Jun-18
B.36	During the audit of revenue it was noted that the indigent register that the municipality uses has not been updated as required. It has also been noted that the indigent register is not in line with the requirements of the indigent policy approved by the Council.	<ul style="list-style-type: none"> <li>* The register received from local municipalities is not consolidated.</li> <li>* The policy determination (threshold)</li> <li>* No council resolution adopting the register for 2016/2017</li> </ul>	<ul style="list-style-type: none"> <li>* Consolidate all LM's indigent registers</li> <li>* Indigent process plan</li> </ul>	<ul style="list-style-type: none"> <li>* Indigent registers, policies and council resolutions from LM's have been received.</li> <li>* Council to adopt the consolidated register</li> </ul>	GM: Community Services	Partially Resolved	31-Mar-18
B.37	During the audit of procurement and contracts it was noted certain suppliers were included in the deviation register however the reasons provided does not meet the criteria to be a deviation and therefore normal process should have been followed.	no controls in place to monitor the process of deviations	Resolved	New deviation form has been developed and put to use. All deviations are approved by MM	CFO	Resolved	ongoing

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
<b>HUMAN RESOURCES MANAGEMENT</b>							
B42	During the audit of employees it was verified that there were employees who received bread and breakfast allowance with no approved policy to substantiate the expense.	Unavailability and unadherence to standard operating procedures in the implementation of HR Policies	N/A	No employees continue to receive the bread and breakfast allowance.	GM: Corporate	Resolved	31-Oct-17
B.43	During the audit it was verified that the rates used on the payslip for the car allowance does not agree to the approved human resource policy. The maximum allowance that the employee can receive is R14,000.00	Car allowances paid were adjusted annually when salary adjustment is effected, this was done without adjusting the policy and without council resolution approving the adjustments	* Review the policy and submit the draft for council approval by 31 March 2018; * Identify irregular expenditure incurred during 2017/2018 and report to council by 30 June 2018	Some employees remain on car allowances not in line with the policy	GM: Corporate	Not Resolved at all	31-Mar-18
<b>INFORMATION TECHNOLOGY</b>							
B45	The Information Technology(IT) function at the Municipality District Municipality was not fully capacitated as the posts that formed part of the municipality structure were vacant	The municipality experienced financial constraints and was unable to advertise posts	The Municipality to finalise the work study project	No posts advertised and concluded for IT	GM: Corporate	Not Resolved at all	30-Jun-18
B46	There were no performance reports to management by the Payday service provider	SLA signed with Payday, did not include performance paragraph	Management to include performance reports in its SLA with PayDay	No performance reports are received from service providers in relation to IT service provision	GM: Corporate	Not Resolved at all	30-Jun-18
B47	A Disaster Recovery Plan(DRP) was in place;however it had not been tested by the Municipality to assess its effectiveness in recovering critical IT resources in the event of a disaster.	No Standard operating procedures in place to monitor the DRP	* Development of standard operating procedure manual around DRP. * The Municipality to install a new remote backup server	Adjustment budget could not address the issue of backup server	GM: Corporate	Not Resolved at all	30-Jun-18
<b>WATER AND SANITATION</b>							

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A48	With decreasing water availability given the municipality's drought situation and an increase in reported water losses by 58% with a total of R12 637 458 (2016/17: R30 382 985 and 2015/16: R17 745 527) (i.e. note 43) thus reflects poor use of infrastructural resources and management. This characterizes absence in maintenance policy that which should effect improvement in water infrastructure management to reduce water losses. Absence in water infrastructure maintenance plan further contributes to foregone revenue collection. Maintenance policy supplements section (63(1) of the Municipal Finance Management Act of the Republic of South Africa, 2003 (Act No. 56 of 2003) that requires maintenance of assets	Lack of preventative maintenance due to no maintenance plans in all WTW and WWTW, thus having high number of aging water and wastewater infrastructure, which results to high waterlosses	Preventative maintenance plan to be developed for periodically maintenance of all existing infrastructure within UKDM	The development of maintenance plan is in progress	GM: Technical	Partially Resolved	30-Jun-18
CONTRACT AND PROJECT MANAGEMENT							



No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A49	1. Hlabisa-Mandlakazi had 5 year delays, although three of the five contractors have had completion certificates in September 2016, however access to water provision has not been realized as water provision is dependent on water treatment works from other intergovernmental role players. Penalties were not raised on the five contractors as per clause 5.13.1 of the GCC 2nd edition. It was also noted that the municipality has not clearly captured the process it follows and the required approval on variations and amendments of contracts as noted from Hlabisa-Mandlakazi scope changes that took place. 2.The Bhoboza KwaMsane water project was budgeted for R22 766 508 and had to be completed on 14 December 2016 with the intention of carrying bulk water through a pipeline from existing Mtubatuba heights reservoir to KwaMsane reservoir. However, the project was not completed due to land ownership and road servitudes issues amongst others, thus preventing completion.	<b>Hlabisa-Mandlakazi</b> <ul style="list-style-type: none"> <li>* Poor Planning and lack of Project &amp; Contract Management Skills;</li> <li>* Poor Stakeholder Management</li> <li>* Budget constraints</li> </ul> <b>Bhoboza to KwaMsane Gravity main</b> <ul style="list-style-type: none"> <li>* Poor Contract &amp; Project Management</li> <li>* Poor Stakeholder Management</li> <li>* The main contractor requested to be released from the project - cash flow problems</li> </ul>	<b>Hlabisa-Mandlakazi</b> <ul style="list-style-type: none"> <li>* Further Stakeholder engagement is required to complete the project</li> <li>* Intergovernmental committee, to continue addressing all issues regarding the project and the completion of the Mandlakazi WTW</li> </ul> <b>Bhoboza to KwaMsane Gravity main</b> <ul style="list-style-type: none"> <li>* A suitable service provider to be appointed to complete the project</li> </ul>	<b>Hlabisa-Mandlakazi</b> will be completed by no later than June 2018 <b>Bhoboza to KwaMsane Gravity Main</b> The project will commence during 2018/19 FY	GM: Technical	<b>Partially Resolved</b>	30-Jun-18
<b>WATER DISTRIBUTION LOSSES</b>							
A50	The municipality has disclosed material water losses in the annual financial statements (i.e. note 43) in terms of kilolitres and rand value, however, the disclosure was not expressed in percentages hence compromising adequate disclosure and presentation	There is no system in place to ensure Weekly, Monthly or Quarterly Losses are reported to the Finance Department to ensure inclusion to Section 71 (MFMA) Reports	Keep accurate record of water losses	There remain a lack of reporting system to monitor water and electricity losses	GM: Technical	<b>Not Resolved at all</b>	30-Jun-18

PROGRESS REPORT - RESPONSE PLAN - MARCH 2018

No.	AGSA Finding	Root cause as per Management Perspective	Remedial action required	Progress made to date	Responsibility	Rating	Due date
A51	<p>3 out of 3 water projects exceeded their planned completion dates and also 2 out of 3 sanitation projects exceeded their planned completion dates. The finding relates to the following projects :</p> <p><b>Water Projects</b></p> <ul style="list-style-type: none"> <li>* Bhoboza to KwaMsane Gravity main project - Planned completion 09 February 2015</li> <li>* Ingwavuma Boreholes - Planned completion 26 September 2014</li> <li>* Manguzi Star of the Sea - 15 December 2016</li> </ul> <p><b>Sanitation Projects</b></p> <ul style="list-style-type: none"> <li>* Thembaletu Sanitation - Planned completion 26 August 2016</li> <li>* Jozini Low Cost - Sewer upgrade - Planned completion 30 September 2017</li> <li>* Ingwavuma VIP Toilets - Planned completion 30 June 2018</li> </ul>	<ul style="list-style-type: none"> <li>* Bhoboza to KwaMsane Gravity main project - Commenced in April 2015 due to budget constraints.</li> <li>* Poor Contract &amp; Project Management</li> <li>* Poor Stakeholder Management</li> <li>* The main contractor requested to be released from the project - cash flow problems</li> <li>* Ingwavuma Boreholes - Budget constraints, to commence in 2018/19 FY</li> <li>* Manguzi Star of the Sea - Commenced in February 2018 due to budget constraints.</li> </ul> <p><b>Sanitation Projects</b></p> <ul style="list-style-type: none"> <li>* Thembaletu Sanitation - Poor Planning and Lack of Contract &amp; Project Management</li> <li>* Jozini Low Cost - Sewer upgrade - Project was approved in August 2017</li> <li>* Ingwavuma VIP Toilets - Limitations of project funding due to MIG allocation</li> </ul>	<ul style="list-style-type: none"> <li>* Bhoboza to KwaMsane Gravity main - Assessment of site was conducted to ascertain funding required to complete the project</li> <li>* Ingwavuma Boreholes - Budget constraints, to commence in 2018/19 FY</li> <li>* Manguzi Star of the Sea - Under construction</li> <li>* Thembaletu Sanitation - Wayleave application submitted for approval to transnet</li> <li>* Jozini Low Cost - Sewer upgrade - Contractual issues are being dealt with</li> <li>* Ingwavuma VIP Toilets - under construction</li> </ul>	in progress	GM: Technical	Not Resolved at all	30-Jun-18
A52	<p>It was noted that the municipality budgeted R55 500 000 as indicated in vote number 3800/3860/1201 for infrastructural routine maintenance however this budget was inadequate as it did not provide for 21,57% of the routine maintenance projects resulting to overspending of R11 972 213.11</p>	<p>Only one vote was being used for all O &amp; M issues</p>	<p>Different votes to be created for different O &amp; M issues</p>	<p>Each project is monitored as each vote for each project is implemented</p>	GM: Technical	Resolved	30-Mar-18

# **ANNEXURE D**

AUDIT COMMITTEE REPORT FOR 2016/2017 FY



## **REPORT OF THE AUDIT COMMITTEE TO THE UMKHANYAKUDE DISTRICT MUNICIPALITY COUNCIL**

File Reference:  
Report Number:

Author: Mrs. Charmaine Jugnarayan  
Designation: Chairperson of the Audit Committee

CONFIDENTIAL  
FOR CONSIDERATION

The Honourable Speaker  
UMKHANYAKUDE DISTRICT MUNICIPALITY COUNCIL

**SUBJECT: AUDIT COMMITTEE REPORT FOR THE 2016/17 FINANCIAL YEAR**

**DATE: 25 OCTOBER 2017**

### **1. INTRODUCTION**

The Audit Committee of the Umkhanyakude District Municipality has pleasure in submitting its report to the Council for the above period for consideration.

### **2. PURPOSE**

The purpose of this report is to apprise Umkhanyakude District Municipality Council of the outcome of the work done by the Audit Committee during the 2016/17 Financial Period.

### **3. LEGISLATIVE PROVISIONS**

- 3.1 In terms of Section 165 of the Municipal Finance Management Act, Act 56 of 2003 ("the MFMA"), Internal Audit Unit is directly accountable functionally to the Audit Committee. This accountability applies despite the administrative location of the Internal Audit Unit which is under the Office of the Municipal Manager.
- 3.2 Internal Audit Unit is responsible to the Accounting Officer to ensure that it gives assurance as to the effectiveness and efficiency of the systems of internal controls, governance and risk management at Umkhanyakude District Municipality. This should not, however, be construed as channelling the Internal Audit's direct responsibility to the Accounting Officer as this function reports to the Audit Committee as laid out in International Standards for the Professional Practice of Internal Audit (ISPPIA) issued by the Institute of Internal Auditors of South Africa (IIA).
- 3.3 ISPPIA requires that matters which arise in the course of the internal audit activities are confidential and primary discussion is restricted to management and Accounting Officer. Discussion with management is necessary when the draft audit report has

been prepared for management comments and action plan developed for consideration by the Audit Committee, Executive Committee and Council. This is an essential feature of the good relationship between the internal auditors, management and Council.

- 3.4 The report records the outcome of the work done by the Audit Committee. The committee from time to time made recommendations as preventative or corrective measures to the weaknesses identified by Internal Audit Unit in the municipality based on reports and information, financial reports in terms of Section 52, 66, 71 and 72 of the MFMA supplied to the Audit Committee.
- 3.5 The recommendations or advice in this report have been made based on certain information at a point in time and supplied to the Audit Committee and are subject to change after due consideration of new information received as well as subsequent deliberation with the municipality.

#### **4. MEMBERS**

The Audit Committee consist of the members listed hereunder and meets as a minimum, four times a year as per the approved Audit Committee Charter. The composition of the committee is minimum of three members as per section 166 (4) (a) of the MFMA.

The Audit Committee was appointed on 01 April 2017 and consists of 3 members.

<b>Name of Member</b>	<b>Number of Meetings Attended</b>
Mrs. C Jugnarayan (Chairperson)	2
Mr. DD Mncwabe	2
Mr. V Thembe	2

#### **Overview of Activities**

The Committee held 2 meetings during the period under review on the following dates:

21 April 2017;

26 June 2017;

Additional meetings were held on 24 August 2017 & 30 August 2017.

#### **5. AUDIT COMMITTEE RESPONSIBILITIES**

The Audit Committee has complied with its responsibilities arising from section 166 of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) and clause 14(2) (a) of the Municipal Planning and Performance Management Regulations of 2001. The Audit Committees' work was guided and regulated by an Audit Committee Charter and has discharged all its responsibility as contained therein.

## 5.1 Institutionalisation of Internal Audit Function

Internal Audit Unit and Audit Committee operate within the mandate of the approved charters adopted by the Audit Committee and Council respectively.

## 5.2 Internal Audit Function

- (a) The work of the Internal Audit Activity is regulated by Section 165 MFMA, ISPPA & Internal Audit Charter.
- (b) In terms of S165 (1) each Municipality is required to have an internal audit, S165 (3) allows the municipality to co-source the internal audit function if the Municipality requires assistance to develop its internal capacity. The internal audit services were out-sourced to EY, the firm of Chartered Accountants and Auditors who were appointed in April 2017. The Internal Audit Unit operates on the annual audit coverage plan which was approved by the Audit Committee in April 2017.
- (c) Internal audit reports were presented and discussed with management before they were tabled at the Audit Committee meetings. Issues that were raised were, deliberated upon and recommendations made to Council including the findings raised by the Auditor-General in their audit report for 2015/16 financial year.
- (d) The following progress against the internal audit plan for 2016/17 was reported in the June 2017 meeting: The period of audit coverage was 1 July 2016 to 30 April 2017

<u>No.</u>	<u>Audit Area</u>	<u>Status</u>
1	Performance Management System Q1 & 2 of 2016/17	Completed & reported
2	Division of Revenue Act (DORA) Compliance	Completed & reported
3	Loss Control Review	Completed & reported

- (e) The Audit Committee continues to monitor the progress against the implementation of the annual audit plan.

## 5.3 System of Internal Control

- 5.3.1 The system of internal controls are designed to provide reasonable assurance that the assets are safeguarded and the liabilities and working capital are effectively and efficiently managed.

- 5.3.2 The tabled reports highlighted the following summary of findings:

<u>Audit Area</u>	<u>Finding Risk rating: High</u>	<u>Finding Risk rating: Medium</u>	<u>Finding Risk rating: Low</u>	<u>Total audit findings</u>
PMS Q1 & Q2	4	3	-	7
DORA Compliance	4	1	-	5

Loss Control Review	3	1	-	4
<b>Total</b>	<b>11</b>	<b>5</b>	<b>0</b>	<b>16</b>

Of concern to the Audit Committee is the significant number of findings relating to the performance management review, as well as the fact that 69% of the total findings are rated high and require immediate attention. Management is required to implement appropriate systems of internal controls and/or corrective action to address the identified weaknesses and possible irregularities. Although there are controls in place, the existing systems and procedures require enhancement and continued monitoring.

- 5.3.3 To further enhance the processes in place, the Internal Audit Unit conducts follow up audits on previously reported internal audit findings and reports progress to senior management and the Audit Committee.

No follow up audits were conducted during the period under review due to the late appointment of internal audit.

- 5.3.4 The Audit Committee recommends that the internal audit reports include the overall internal audit conclusions on the rating of the effectiveness of internal controls and indicate whether the control framework is operating as designed.

#### 5.4 Performance management

The Audit Committee also serves as the performance Audit Committee for Umkhanyakude District Municipality 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).

The Audit Committee noted the internal audit report on the performance management system for the first, and second quarters. The overall conclusion on the reports were rated, indicating that there is room for improvement in the critical processes in respect of adequacy and efficiency. Areas of concern continue to be the provision of complete and accurate information in the portfolio of evidence and targets not achieved.

In the meeting held on 30<sup>th</sup> August, the Audit Committee considered the PMS report and the internal audit report on the PMS for the period under review.. The report also noted that although the achievement is favourable, there are areas that need attention and severe corrective measures be implemented to achieve set targets. This is in line with the findings of Internal Audit.

#### 5.5 External Audit by Auditor-General

- 5.5.1 The Audit Committee has reviewed the External Audit scope to ensure the critical areas within the Municipality are being addressed. In addition, the committee

considered the audit strategy. The audit engagement letter was tabled to management in September 2017 for signature.

- 5.5.2 Based on processes followed and assurances received from the Auditor-General, nothing has come to the committee's attention with regard to any matter concerning the independence of External Auditors.
- 5.5.3 The dashboard report compiled by Auditor-General was discussed at the meetings held in June & August 2017 and progress thereof noted for quarter 3 of 2016/17 financial year. The dashboard report for Quarter 4 will form part of the report to management on the external audit. The Action Plan and Dashboard report was tabled to the Political and Administrative Leadership by the Auditor General on 24 August 2017.

## **5.6 Review of financial statements and accounting policies**

The Audit Committee, during its review of the financial statements for the year ended 30 June 2017, considered the appropriateness, adoption and consistent application of the South African Statement of Generally Recognised Accounting Practices (GRAP).

The Audit Committee is satisfied that they comply in all material respects with the relevant provisions of the Municipal Finance Management Act and GRAP and, pending certain adjustments be made has approved the annual financial statements for submission to the Auditor-General.

A summary report on MSCOA was noted highlighting that the Municipality is on target for implementation.

## **5.7 Risk Management**

No risk workshops were held during the period under review and the risk register was accordingly not updated. The risk register compiled during the previous period was used to update the internal audit plan. The Municipal manager has undertaken to follow up on the appointment of the risk officer.

It should also be noted that improvements in risk management include:

- The appointment of a risk officer;
- The ongoing updating of the risk register and annual risk workshop;
- The formal structuring and sitting of the risk committee;
- The appointment of the risk committee chairperson; and
- The tabling of risk committee minutes for the Audit Committee

## **5.8 Information and Communication Technology**

IT Governance Framework and Strategy is an engine of any organisation and should be developed and implemented urgently. Management have been actively addressing the concerns raised by the AG.



## **5.9 Overall Positive Improvement**

The Audit Committee was pleased with the improvements but was of the view that there more room for further improvements as effort was still required in a number of areas as highlighted in this report where there was slow progress in clearing issues raised by Internal Audit Unit and Auditor General.

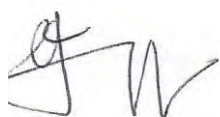
## **5.10 Recommendations**

- (a) Council should ensure that there is support for the internal audit function;
- (b) Council should ensure prioritisation of risk management in terms of capacity & skills;
- (c) Council should ensure that the formal risk management committee minutes are tabled to the Audit Committee on a quarterly basis;
- (d) Council together with management should implement a vigorous debt collection strategy.
- (e) The Council and management need to further enhance internal controls over revenue management and SCM processes;
- (f) Management should interact with the external auditors for interim audits with a view to identify and address shortcomings timely.
- (g) Management should ensure that accurate, reliable and complete financial and performance information is submitted quarterly for review by the Committee;
- (h) Key management vacancies need to be filled with permanent employment

## **5.11 Conclusion**

The Audit Committee is of the opinion that in addition to the recommendations to Council, Management is required to implement appropriate systems of internal controls and/or corrective action to address the agreed concerns as identified by both Internal Audit, the Auditor General and Senior Management. The status of implementation of corrective measures is to be reported at every meeting of the Audit Committee to enable monitoring. Overall the Audit Committee has noted a positive improvement in the functioning of the municipality and will seek to monitor the implementation of resolutions quarterly

On behalf of the Audit Committee



**Mrs. Charmaine Jugnarayan**  
**Chairperson**  
**Umkhanyakude District Municipality Audit Committee**  
**25 October 2017**

# **ANNEXURE E**

**ANNUAL REPORT FOR UMHLOSINGA DEVELOPMENT AGENCY 2016/2017**



*"Opportunity  
through Development"*  
[www.umd.org.za](http://www.umd.org.za)

2016/17

# ANNUAL REPORT



Chief Executive Officer,  
Mr. Mandla Ntuli

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# CHAPTER 1

## INTRODUCTION AND OVERVIEW

## 1.1 FOREWORD FROM THE CHAIRMAN

This is that period again that gives us an opportunity to render an account of the activities of Umhlosinga Development Agency, for the year under review.

UMDA as the UMkhanyakude District Municipal entity is tasked with stimulating and facilitating economic growth within the district, through the implementation of catalytic projects. Agribusiness and Tourism has been identified as the two main economic drivers of the district. However, the agency has also been mandated in the past to implement specific infrastructure projects that include the Mkuze Airport Development and the Jozini Hydro electricity generating plant. We are in the middle of implementing a five year strategy that will place the agency in the heart of delivery. The agency now focuses on implementing catalytic projects in the fields of Agribusiness, Tourism, infrastructure and urban development.

### **Our Vision**

A leading partner providing investment solutions to economic development.

### **Our Mission**

To co-ordinate, plan and manage the implementation of a locally driven program of catalytic projects, to fast track the development of the local economy of the district of uMkhanyakude.

### **Our Objectives**

1. To promote sustainable commercialisation of agriculture and establishment of agri-business industries in the district
2. To develop world class tourism establishment
3. To develop settlements that promote urbanisation and industrialisation
4. To develop world class catalytic infrastructure that promotes economic development
5. To develop institutional capacity of the agency, at all levels, with the capacity to effectively implement and raise funds for catalytic projects and operational needs.

In order to achieve our mandate, we have been working with a number of stakeholders both in the province and nationally. We believe that if we have to make an impact as the agency, we need to work together with all the relevant stakeholders but also co-ordinate our efforts better. During the year under review a new council came in after the local government elections. It appears that council was ill-advised that UMDA is not a municipal entity as prescribed by both the municipal systems act and the companies act. As the board, we have worked tirelessly in clarifying this lie. Our work resulted in a meeting between the board and the Exco representatives, in June 2017 that paved the way for more engagements. We are hopeful that despite all of this, the relationship will be restored to even better levels. In this regard, we continue to create a platform for better engagement with our parent municipality, which will eventually yield excellent results.

Tourism is currently a major draw card for the district. A number of jobs have been created in the sector but not significant enough to match the profile and growth of the industry. Transformation in the sector is also of priority, as we enter a new phase of radical economic transformation in our country. Tourism has not reached its full potential as the economic driver of the district economy, as outlined in the provincial growth and development plan and the Makhathini Integrated Development Plan. Through Route 22, The Hotel School and the Tourism Development Nodes, we are now implementing plans that will ensure that our district attracts more domestic and international tourists, while boasting with world class establishments and unique tourism attractions.

Agriculture and agribusiness together are the most important sectors in the district. We are elevating agri-business to be at the top of the agenda for economic transformation and development. Agribusiness is beginning to play a critical role in jump-starting economic transformation through the development of agro-based industries that bring much needed jobs and income. Successful agribusiness in turn stimulates agricultural growth through the provision of new markets and the development of a vibrant value chain. The National Schools Nutrition Project is currently providing a platform for such participation in the value chain. I am confident that the strategy of the agency will bear fruits in the short to medium term.

Mkhuze Regional Airport Development has also gained momentum, the environmental impact assessment record of decision has been issued and the PDA application have been commenced in earnest. A number of national airlines have confirmed their interest in Mkhuze to be their new destination. We are now working around the clock to make this a reality. Fencing of the airport precinct with state of the art fence has been completed. Through the partnership we have with



EDTEA, we have also commenced the process for the rehabilitation of the runway. We are also fast tracking the implementation of the Jozini Hydro Project, a consultant has been appointed to deal with planning, technical designs, funding and implementation. These are capital intensive projects but are also catalytic in nature. We continue to implement our fundraising drive and I am also confident that we will finally see the airport delivered to the people of the district.

The Provincial Growth and Development Strategy also acknowledges the need to develop sector specific strategies to ensure effective implementation of the strategy, particularly, in terms of addressing the triple challenges of unemployment, poverty, inequality and more importantly integrating youth into the mainstream of the economy.

During the year under review we had both the CEO and CFO occupying their positions, this has provided stability in the organization, with less than significant staff turnover. I have instructed management that they must work on delivering a clean audit in the next financial year.

We are building an agency that will create jobs, create economic opportunities and address poverty and inequality. If we fail to do the above, we would have failed our people, since we are the guardians of economic development in our district. I promise that through the Economic Development revolution in the district, as driven by UMDA, the challenges of unemployment, poverty and inequality will be addressed. Our interventions have already created a number of jobs and we are working hard to create even more jobs in the near future.

***I thank you***

***Russell P. Tembe***

***Chairman of the Board of Directors***

## 1.2 FOREWORD FROM THE CEO

This year has been both an exciting and challenging year for the UMDA. It was the third year whereby the current CEO has spent a full year with the agency, the second full year for the CFO and also the fourth year for the board. The relationship between the board and the parent municipality deteriorated to an all-time low. Finally, the organization continues to implement a strategy that will not only change the face of UMDA, but that will also change the way agencies have been doing business in the country.

The legislative framework relating to municipal entities came into effect through amendments to the Municipal Systems Act (MSA) and the enactment of the Municipal Finance Management Act (MFMA). The MSA defines three types of entities that may be established by a municipality with effect from 1 August 2004; private company, service utility or multi-jurisdictional service utility.

Prior to the MSA and MFMA requirements taking effect, municipalities used various arrangements to deliver services and manage the functions they performed. These included formation of trusts, section 21 companies and private companies. It was a requirement for municipalities to review these structures in view of the amended legislative framework and either convert them to an entity as per the amended legal framework or disestablish them, if they are no longer required. A review would cover such aspects as objectives of the entity, purpose for its establishment, activities being performed in an efficient and effective manner, providing value for money, sustainable budgets and viable funding, self-sustainability, appropriateness of governance structures to provide effective municipal oversight, accountability, transparency and reporting.

After the review, the previous council of uMkhanyakude district municipality concluded to establish a municipal entity as a local economic development agency. The main responsibility of the agency is to stimulate economic growth through implementation of catalytic projects. Whilst the powers accorded to the agency are broad, the mandate is limited and focuses on the implementation of economic catalytic projects. We have now separated the LED function of the municipality to that of the agency. The agency has specific large catalytic projects to implement whilst the LED sections will be responsible for policy, social projects and small economic development projects. In order to manage this separation of powers effectively, we have concluded that the agency should be a technical and professional organization but not an LED practitioners' organization. We continue to employ experts in the fields of agribusiness, tourism development, infrastructure and urban development to assist the agency to implement its mandate effectively.

During the previous financial year the agency obtained an unqualified audit opinion. As a result of hard work from our finance department and prudent financial management from our management as a whole, we managed to improve our audit opinion. As a result we managed to improve to an unqualified audit opinion. Management since took a number of resolutions towards improving the audit opinion to that of clean audit. We are still committed to ensuring that the agency achieves a clean audit opinion going forward.

The organization is currently funded by the District for operational expenses and funded by other funding agencies for content cost. In this financial year we received only R5,5 million from the district for operational costs and R6 million from KZNEDTEA for the rehabilitation of the runway at Mkhuze Airport. We have also continued to implement the contract with the KZN department of Education worth R24 million per year, effective from January 2015. During the course of the year, we have managed to reduce the debtors book of the agency drastically and maintained our tax matters efficiently. The Parent Municipality continued to experience severe cash flow and financial management challenges during the year under review and these challenges have impacted negatively on the agency, to the extent that committed funding owed to the entity in the previous financial years, could not be transferred to the agency. Despite these challenges, especially encountered by the parent municipality, the agency is in a financially stable position.

I would like to thank Mr Bheki Menyuka, Fundraising Officer and Ms Brenda Njoko, Company Secretary, who resigned to pursue private interests. I will also like to thank Ms Joyce Biyela who retired as a result of age, for her selfless dedication and commitment to the course of the agency. We have a stable workforce with an opportunity for the agency to grow, to craft and implement new projects and to appoint better qualified personnel who are up to the task of taking the economic revolution of the district forward. We are now focusing on building capacity within the existing team and also appointing new team members who are specialists in their fields.

During the year we have implemented projects like the Development of Mkhuze Airport, Jozini Hydro, Hotel School, and Schools Nutrition Projects that enhances our role as a development catalyst in the district. As we move forward to the next level of our revolution, it is critical that we build and maintain strategic partnerships with our local, provincial and national stakeholders. We will strive for co-operation and better co-ordination of our efforts. The ongoing support of both local and provincial government for the UMDA is of utmost importance, this will set the wheels in motion to achieve the goals that our leadership is expecting the UMDA to achieve. The role of the

private sector is also pivotal in our interventions, as they will ensure sustainability beyond the public sector investment.

During this year under review we performed excellently against all odds and met most of our performance targets. We have reviewed our performance targets and aligned them to our capacity and mandate. I would like to thank all my staff members for their great work, commitment and dedication. Your contribution will never go unnoticed. To my board, you are an example of selfless dedication, commitment and vision. I cherish your contribution to the development of the district and her people.

***Thank you.***

***Mandla Ntuli***  
***Chief Executive Officer***

### 1.3 OVERVIEW OF THE AGENCY

The district is located in the north-eastern corner of the province and shares a national border with Mozambique in the North, with Swaziland in the Northwest and is bounded to the east by the iSimangaliso world heritage site. The UMkhanyakude District Municipality abuts the municipal districts of uThungulu (to the south) and Zululand (to the west). The district forms the southern portion of the Maputaland Coastal Plain, which extends southwards from East Africa, through Mozambique and into northern KwaZulu Natal.



The district is named after the UMkhanyakude Tree (*Acacia Xanthophyllous*, Fever Tree which translated to English means “the light in the distance”). The district covers an area of approximately 12 818 km<sup>2</sup> and has a population of some 625 846 persons. The district is largely rural with only one formal town, namely Mtubatuba in the south. There are several towns in the area that are experiencing rapid growth including Mkuze, Hluhluwe, Jozini, Emanguzi and Mbazwana. The center of Jozini, in particular, has experienced considerable growth in investment and is fast becoming one of the strategic development nodes within the district.

Primary access to the district is by road mainly via the national N2 route (which links the southern and northern parts of the KwaZulu Natal province), and via the coastal SDI route (MR439), which upon completion, will link the national N2 route, with the city of Maputo, in Mozambique. The district is strategically linked to the provincial markets of KwaZulu Natal and Mpumalanga and to the neighboring market of Swaziland, via the N2 route. In terms of international trade links, the district's has access to global markets through the provincial ports of Durban and Richards Bay. Upon completion of the LSDI route between Hluhluwe and Maputo, the district will have a direct link to the Port of Maputo, in Mozambique.

UMkhanyakude has outstanding potential for agriculture and tourism development, with the district having a wealth of natural beauty and outstanding landscapes, as well as a favorable climate and fertile soils for major agricultural production. The district is closely associated with the iSimangaliso, "Maputaland", the Makhathini Flats and the Pongola-Poort/Jozini Dam (constructed in the 1970's with the intention of unleashing the agricultural potential of the area).

Several initiatives have been taken in the post-apartheid period, in an effort to boost economic activity in the sub region, including:

1. The recognition of the iSimangaliso as a UNESCO World Heritage Site, in 1999.
2. The rollout of the Lebombo Spatial Development Initiative (LSDI), a joint program by South Africa, Swaziland and Mozambique that aims to unlock economic development potential of the wider Lubombo sub-region within the framework of the South African Development Community (SADC).
3. Tripartite Conservation Agreements with the two neighboring SADC countries of Swaziland and Mozambique focused on the future establishment of a Trans-Frontier Conservation Area (TFCA), to boost social and economic interchange, and tourism in the region.

Notwithstanding the aims and objectives associated with the abovementioned initiatives, the district currently remains an area characterized by extreme poverty and a pronounced lack of development across vast areas of the jurisdiction. It is for this reason amongst others that UMDA was established as a municipal entity dedicated to promoting economic development through the facilitation and implementation of economic catalytic projects.

The UMkhanyakude District Municipality's Integrated Development Plan; 3<sup>rd</sup> Generation 2014/15 (2015:88) described the UMDA's mandate as: **UMhlosinga Development Agency (UMDA)-**

In response to the challenges regarding Economic Development, the UMkhanyakude District Council decided to establish a Special Purpose Vehicle to drive Economic Development in the District. The UMhlosinga Development Agency was established by Council resolution in 2006. With financial assistance from the Local Economic Development Agency program of the Industrial Development Corporation, the agency started Operations on the 1st of January 2008.

The UMDA speaks to 5 major Key objectives of the IDP

1. Financial Viability
2. Economic Development
3. Corporate Governance
4. Institutional Development
5. Job Creation

The UMDA functions as a Local Economic Development Agency (LEDA) spearheading growth and development in the sub region. The District Municipality has formally mandated the agency, to be responsible for the planning and implementation of a program of sustainable economic that acts as an agent, for and on behalf of the UMkhanyakude District Municipality, for the purposes of implementing an integrated and sustainable program of economic development in the area.

## CHAPTER 2

# G OVERNANCE



## **SECTION A: GOVERNANCE STRUCTURES**

### **2.1 BOARD GOVERNANCE**

The UMDA's Board of Directors (non-executive) were appointed by the UMkhanyakude District Municipality in accordance with Section 86H of the Local Government Municipal Systems Act; 2000; as amended. The Board consist of seven members; five non-executive and two executive members. The Board focuses on providing strategic direction and monitoring the performance of the organisation. The Board is implementing the 2014-2019 Strategy which was adopted in May 2013. The development of the 2014-2019 Strategic Plan is directly aligned to the contextual District Municipality's Growth and Development Plan, Provincial Growth and Development Strategy and the National Strategic Plan. As part of strategy implementation the Board approved the 2015-2018 Business Plan which forms the bases for this annual report.

The Board then monitors and reports performance against agreed standards; targets. The Board's monitoring of the UMDA's performance during the financial year was through four board meetings. The Board as supported by the Audit Committee and Internal Audit. In all board meetings the board has ensured that the following is addressed:

- a) Performance Management;
- b) Financial Management and Viability;
- c) Risk Management; and
- d) Stakeholder Management.



### **Board Committees:**

<b>BOARD MEMBER</b>	<b>CAPACITY</b>	<b>BOARD COMMITTEE</b>	<b>RACE</b>	<b>GENDER</b>
<b>Mr. Russell Tembe</b>	Non-executive	Board Chairman	African	Male
<b>Mr. Sibusiso Gumbi</b>	Non-executive	Deputy Chair	African	Male
<b>Mr. Zwelisha Ndwandwe</b>	Non-executive	Member	African	Male
<b>Mr. Sipho Nyawo</b>	Non-executive	Member	African	Male
<b>Mr. Mfundo Thango</b>	Non-executive	Member	African	Male
<b>Mr. Mandla Ntuli</b>	Executive	Chief Executive Officer	African	Male
<b>Mrs. Qhamu Mntambo</b>	Executive	Chief Financial Officer	African	Female

### **Board Meetings:**

<b>BOARD MEMBER</b>	<b>BOARD MEETINGS</b>			
	<b>No. Meetings</b>	<b>Attendance</b>	<b>Apology</b>	<b>Absent</b>
<b>Mr. Russell Tembe</b>	4	3	1	0
<b>Mr. Sibusiso Gumbi</b>	4	4	0	0
<b>Mr. Zwelisha Ndwandwe</b>	4	4	0	0
<b>Mr. Sipho Nyawo</b>	4	2	2	0
<b>Mr. Mfundo Thango</b>	4	1	3	0
<b>Mr. Mandla Ntuli</b>	4	4	0	0
<b>Mrs. Qhamu Mntambo</b>	4	4	0	0

**Board Engagements:**

<b>BOARD MEMBER</b>	<b>BOARD ENGAGEMENTS</b>			
	<b>UMkhanyakude District Municipality</b>		<b>Sector Departments</b>	<b>Investors</b>
	<b>Council</b>	<b>EXCO</b>		
<b><i>Mr. Russell Tembe</i></b>	✓	✓	✓	✓
<b><i>Mr. Sibusiso Gumbi</i></b>	✓	✓	✓	x
<b><i>Mr. Zwelisha Ndwandwe</i></b>	✓	✓	✓	x
<b><i>Mr. Sipho Nyawo</i></b>	✓	✓	✓	✓
<b><i>Mr. Mfundo Thango</i></b>	✓	✓	✓	x
<b><i>Mr. Mandla Ntuli</i></b>	✓	✓	✓	✓
<b><i>Mrs. Qhamu Mntambo</i></b>	✓	✓	✓	✓

## **2.2 AUDIT COMMITTEE**

### **Report of the Audit Committee**

File Reference:

Report Number: Designation:

CONFIDENTIAL

Author: Mrs. Charmaine Jugnarayan

Chairperson of the Audit Committee

The Chair of the Board

**SUBJECT: AUDIT COMMITTEE REPORT FOR THE 2016/17 FINANCIAL YEAR**

**DATE: 09 NOVEMBER 2017**

### **1. INTRODUCTION**

The Audit Committee of the Umhlosinga Development Agency has pleasure in submitting its report to the Board for the above period for consideration.

### **2. PURPOSE**

The purpose of this report is to apprise Umhlosinga Development Agency Board of the outcome of the work done by the Audit Committee during the 2016/17 Financial Period.

### **3. LEGISLATIVE PROVISIONS**

3.1 In terms of Section 165 of the Municipal Finance Management Act, Act 56 of 2003 ("the MFMA"), Internal Audit Unit is directly accountable functionally to the Audit Committee. This accountability applies despite the administrative location of the Internal Audit Unit which is under the Office of the Chief Executive Officer.

3.2 Internal Audit Unit is responsible to the Accounting Officer to ensure that it gives assurance as to the effectiveness and efficiency of the systems of internal controls, governance and risk management at Umhlosinga Development Agency. This should not, however, be

construed as channelling the Internal Audit's direct responsibility to the Accounting Officer as this function reports to the Audit Committee as laid out in International Standards for the Professional Practice of Internal Audit (ISPPIA) issued by the Institute of Internal Auditors of South Africa (IIA).

- 3.3 ISPPIA requires that matters which arise in the course of the internal audit activities are confidential and primary discussion is restricted to management and Accounting Officer. Discussion with management is necessary when the draft audit report has been prepared for management comments and action plan developed for consideration by the Audit Committee, Executive Committee and Board. This is an essential feature of the good relationship between the internal auditors, management and the Board.
- 3.4 The report records the outcome of the work done by the Audit Committee. The committee from time to time made recommendations as preventative or corrective measures to the weaknesses identified by the Internal Audit Unit in the Agency based on reports and information, financial reports in terms of Section 52, 66, 71 and 72 of the MFMA supplied to the Audit Committee.
- 3.5 The recommendations or advice in this report have been made based on certain information at a point in time and supplied to the Audit Committee and are subject to change after due consideration of new information received as well as subsequent deliberation with the Agency.

#### **4. MEMBERS**

The Audit Committee consist of the members listed hereunder and meets as a minimum, four times a year as per the approved Audit Committee Charter. The composition of the committee is minimum of three members as per section 166 (4) (a) of the MFMA.

The Audit Committee was operational for the period under review. Two members of the Audit Committee resigned on 31 January 2017 and the Audit Committee members of the Umkhanyakude District Municipality were appointed as members for the Agency Audit Committee on 01 April 2017. The appointment was ratified by the Board on 15th August 2017. The Audit Committee consists of 3 members.

<b>Name of Member</b>	<b>Number of Meetings Attended</b>
Mrs. C Jugnarayan (Chairperson) - Appointed 01 April 2017	1
Mr. V Tembe	3
Mr. DD Mncwabe - Appointed 01 April 2017	-
Mr. B Menyuka (Chairperson) - Resigned 31 January 2017	2
Mr. S Vilakazi - Resigned 31 January	1

An additional meeting was held on 25 August 2017.

## **5. AUDIT COMMITTEE RESPONSIBILITIES**

The Audit Committee has complied with its responsibilities arising from section 166 of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) and clause 14(2) (a) of the Municipal Planning and Performance Management Regulations of 2001. The Audit Committees' work was guided and regulated by an Audit Committee Charter and has discharged all its responsibility as contained therein.

### **5.1 Institutionalisation of Internal Audit Function**

Internal Audit Unit and Audit Committee operate within the mandate of the approved charters adopted by the Audit Committee, Board of the Agency and the Council of the Umkhanyakude District Municipality respectively.

### **5.2 Internal Audit Function**

- (a) The work of the Internal Audit Activity is regulated by Section 165 MFMA, ISPPA & Internal Audit Charter.
- (b) In terms of S165 (1) each Municipality is required to have an internal audit, S165 (3) allows the municipality to co-source the internal audit function if the Municipality requires assistance to develop its internal capacity. The internal audit services were out-sourced to Ngubane & Company for the 2015/16 financial year

and Ubuntu Business Advisory and Consulting (UBAC) were appointed in February 2017. The Internal Audit Unit operates on the annual audit coverage plan which was approved by the Audit Committee in May 2017.

- (c) Internal audit reports were presented and discussed with management before they were tabled at the Audit Committee meetings. Issues that were raised were, deliberated upon and recommendations made to Board including the findings raised by the Auditor-General in their audit report for 2015/16 financial year.
- (d) The following progress against the internal audit plan for 2016/17 was reported in the June 2017 meeting: The period of audit coverage was 1 July 2016 to 30 April 2017

No.	Audit Area	Status
1	Risk management review	Completed & reported
2	Review of the annual financial statements	Completed & reported
3	Performance management information	Completed & reported

- (e) The Audit Committee continues to monitor the progress against the implementation of the annual audit plan. The internal audit coverage plan included six more audits to be performed for the 2016/17 financial year. These audits have been completed and will be tabled at the next audit committee meeting in December.

### **5.3 System of Internal Control**

- 5.3.1 The system of internal controls are designed to provide reasonable assurance that the assets are safeguarded and the liabilities and working capital are effectively and efficiently managed.

5.3.2 The tabled reports highlighted the following summary of findings:

Audit Area	Finding Risk rating: High	Finding Risk rating: Medium	Finding Risk rating: Low	Total audit findings
Risk Management	2	3	2	7
Financial statement review	n/a	n/a	n/a	n/a
PMS for the year	4	3	1	8
<b>Total</b>	<b>6</b>	<b>6</b>	<b>3</b>	<b>15</b>

Of concern to the Audit Committee is the significant number of findings relating to the performance management review, as well as the fact that 40% of the total findings are rated high and require immediate attention. Management is required to implement appropriate systems of internal controls and/or corrective action to address the identified weaknesses and possible irregularities. Although there are controls in place, the existing systems and procedures require enhancement and continued monitoring.

5.3.3 To further enhance the processes in place, the Internal Audit Unit conducts follow up audits on previously reported internal audit findings and reports progress to senior management and the Audit Committee.

No follow up audits were conducted during the period under review due to the late appointment of internal audit.

5.3.4 The Audit Committee recommends that the internal audit reports include the overall internal audit conclusions on the rating of the effectiveness of internal controls and indicate whether the control framework is operating as designed.

## 5.4 Performance management

The Audit Committee also serves as the performance Audit Committee for Umhlosinga Development Agency. 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).



The Audit Committee noted the internal audit report on the performance management system. The overall conclusion on the report was rated satisfactory, indicating that the control system is somewhat effective but there is room for improvement in the critical processes in respect of adequacy and efficiency. Areas of concern continue to be the smartness of the performance targets and lack of action plan on quarterly reports.

In the meeting held on 30th August, the Audit Committee considered the PMS report and the internal audit report on the PMS for the period under review.. The report also noted that although the achievement is favourable, there are areas that need attention and severe corrective measures be implemented to achieve set targets. This is in line with the findings of Internal Audit.

## **5.5 External Audit by Auditor-General**

5.5.1 The Audit Committee has reviewed the External Audit scope to ensure the critical areas within the Agency are being addressed. In addition, the committee considered the audit strategy. The audit engagement letter was tabled to management in September 2017 for signature.

5.5.2 Based on processes followed and assurances received from the Auditor-General, nothing has come to the committee's attention with regard to any matter concerning the independence of External Auditors.

5.5.3 The dashboard report compiled by Auditor-General was discussed at the meetings held in May & August 2017 and progress thereof noted for quarter 3 of 2016/17 financial year. The dashboard report for Quarter 4 will form part of the report to management on the external audit.

## **5.6 Review of financial statements and accounting policies**

The Audit Committee, during its review of the financial statements for the year ended 30 June 2017, considered the appropriateness, adoption and consistent application of the South African Statement of Generally Recognised Accounting Practices (GRAP).

The Audit Committee is satisfied that they comply in all material respects with the relevant provisions of the Municipal Finance Management Act and GRAP and, pending certain adjustments be made has approved the annual financial statements for submission to the Auditor-General.

At year end, the Agency was lagging behind on the implementation of MSCOA, this was as a result of waiting for the District Municipality approval. The Agency is currently working with the District Municipality on the implementation of MSCOA.

## **5.7 Risk Management**

The Agency has appointed a risk officer and a risk register is in place. No risk workshops were held during the period under review. Internal Audit carried out a review of the risk management process and noted the overall conclusion on the Agency's compliance with legislation was weak and the adequacy of the risk management processes within the Agency was unsatisfactory.

It should also be noted that improvements in risk management include:

- The risk policy to be aligned to current legislation and practice;
- The drafting of a standard operating procedure document with document risk identification processes, in line with the risk policy and best practice;
- Training to staff on the standard operating procedures, in particular, risk identification and risk management;
- The ongoing updating of the risk register and annual risk workshop;
- Senior management to regularly review the risk register and manage implementation of controls;
- The formal structuring and sitting of the risk committee;
- The appointment of the risk committee chairperson; and
- The tabling of risk committee minutes for the Audit Committee

## **5.8 Information and Communication Technology**

IT Governance Framework and Strategy is an engine of any organisation and should be developed and implemented urgently. Management have been actively addressing the concerns raised by the AG.

## **5.9 Overall Positive Improvement**

The Audit Committee was pleased with the improvements but was of the view that there more room for further improvements as effort was still required in a number of areas as highlighted in this report where there was slow progress in clearing issues raised by Internal Audit Unit and Auditor General.

## **5.10 Recommendations**

- (a) The Board should ensure that there is support for the internal audit function;
- (b) The Board should ensure prioritisation of risk management in terms of capacity & skills;
- (c) The Board should ensure that the formal risk management committee minutes are tabled to the Audit Committee on a quarterly basis;
- (d) The Board together with management should foster good relations and improve communication with the District Municipality;
- (e) The Board and management need to further enhance internal controls over revenue management and SCM processes;
- (f) Management should interact with the external auditors for interim audits with a view to identify and address shortcomings timely.
- (g) Management should ensure that accurate, reliable and complete financial and performance information is submitted quarterly for review by the Committee;

## **5.11 Conclusion**

The Audit Committee is of the opinion that in addition to the recommendations to the Board, Management is required to implement appropriate systems of internal controls and/or corrective action to address the agreed concerns as identified by both Internal Audit, the Auditor General and Senior Management. The status of implementation of corrective measures is to be reported at every meeting of the Audit Committee to enable monitoring. Overall the Audit Committee has noted a positive improvement in the functioning of the Agency and will seek to monitor the implementation of resolutions quarterly

On behalf of the Audit Committee

**Mrs. Charmaine Jugnarayan**

**Chairperson**

**Umhlosinga Development Agency Audit Committee**

## 2.2 MANAGEMENT GOVERNANCE



## SECTION B: INTERGOVERNMENTAL RELATIONS

### RELATIONSHIP WITH AMAKHOSI

Inkosi Mabhdu Israel Tembe. The UMDA engages Amakhosi in all projects as they are custodians of land in most of the areas of the district. The relationship with Amakhosi is cordial but is also strengthened by the fact that the Board Chairman is a prince of the Tembe Royal family, Mr Nyawo, a board member is also a prince of the Nyawo Royal Family and Mr Gumbi, the Deputy Chairperson in the iNduna for His Majesty, King Goodwill Zwelithini Zulu. This has strengthened the relationship with Amakhosi who are always positive on UMDA initiatives. The UMDA engages with Amakhosi at different project level to ensure that the relationship is maintained.

- When a project is identified in the area, the project is introduced to the local traditional authority;
- Meeting with the traditional house to discuss the project in detail;
- A request for the use of the identified site is thereafter made;
- Draft memorandum of understanding (MOU) is submitted and discussed;
- When agreement has been signed, processes towards applying for the land through Ingonyama Trust commence;
- Continuous engagements with the traditional authority is made; and
- Lastly once investment into the project is received, the Inkosi is a critical role player to ensure that the community benefits as per MoU.

During the 2016/17 FY the UMDA engaged Amakhosi on the following projects:

- Leader of the UMkhanyakude Traditional House of Leaders, Inkosi Tembe for the UMhlabuyalingana Node and Investment Seminar;
- Inkosi Mngomezulu for Jozini Cecil Marks Pass;
- Inkosi Hlabisa for the Hlabisa Tourism Node; and
- Induna of Ndumo for the Construction of Ndumo Market Stalls

## LOCAL MUNICIPALITIES

The local municipalities (LM) are the main beneficiaries of all UMDA projects. The UMDA continues to engage with LMs for local economic development (LED). The UMDA presents projects of a locality to the LM and participates in the following platforms as chaired by the UMkhanyakude District Municipality to maintain relationships:

- LED forums;
- Tourism forums;
- IDP Representative Forums; and
- The UMDA also ensures that the LMs full participates in project through project steering committee meetings (PSC).

During the 2016/17 FY the UMDA implemented the following projects in the municipalities:

MUNICIPALITY	INDUSTRY	PROJECT
Jozini Municipality	Small Town Rehabilitation	Construction of Ndumo Market Stall
		Mkhuze Market Stalls
	Tourism Development	Jozini Mountain Top
		Jozini Cecil Marks Pass
	Agribusiness Development	Fresh Produce Market
		Food Security Estate
		Hydroponic Tunnels
		Bhambanana Abettor
	Infrastructure Development	Mkhuze Airport
		Jozini Hydro
	Industrial Development	Mkhuze Industrial Park

<b>MUNICIPALITY</b>	<b>INDUSTRY</b>	<b>PROJECTS</b>
UMhlabuyalingana Municipality	Industry Development	Manguzi Industrial Park
	Tourism Development	Umhlabuyalingana Node
	Agribusiness Development	Marula Processing
The Big 5 Hlabisa Municipality	Tourism Development	Hlabisa Node
Mtubatuba Municipality	Tourism Development	Hotel School Development
	Small Town Rehabilitation	Mtubatuba Interchange
UMkhanyakude District Municipality (district wide projects)	Agribusiness Development	National Schools Nutrition Project
	Agribusiness Development	Farmer Support
	Small Town Rehabilitation	Regeneration Plan
	Infrastructure Development	Broadband Connectivity



## RELATIONSHIP WITH STAKEHOLDERS

As the UMDA is funded by the UKDM for operational expenses, this leaves a gap for capital budget requirement. The mandate of the UMDA could never be realised through operational funding alone, therefore the Board has taken an aggressive approach to ensuring that they engage with stakeholders for technical and financial support towards project implementation.

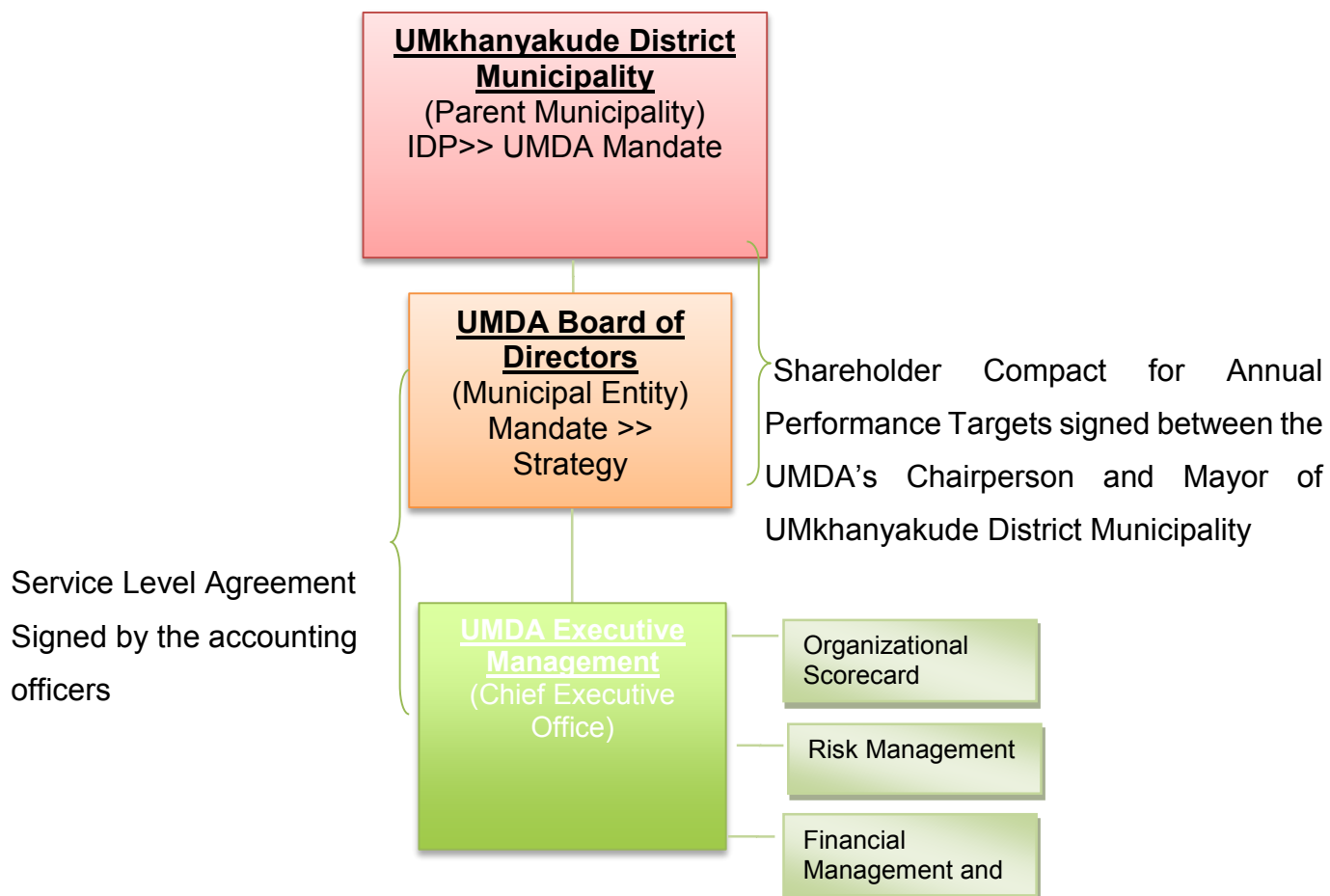
The relationship with stakeholders is therefore very important. In the past financial year, the UMDA has had much support from the Department of Corporate Governance and Traditional Affairs; the Department of Education and the Department of Economic Development, Tourism and Environmental Affairs. This relationship has boosted the UMDA financial position and has made the UMDA to be visible to local communities.

The UMDA has engaged the following stakeholders in the FY:

STAKEHOLDER	PURPOSE / PROJECT	TECHNICAL SUPPORT / FUNDING
The Industrial Development Corporation (IDC)	- Broadband Connectivity project	- Technical support
The KwaZulu Natal Cooperative Governance and Traditional Affairs	- Construction of Ndumo Market Stalls	- Funding
The KwaZulu Natal Department of Economic Development, Tourism and Traditional Affairs	- Mkhuze Airport Development ✓ Fencing and ✓ Runway Rehabilitation	- Funding
The KwaZulu Natal Department of Education	- National School Nutrition Project	- Funding
Tiger Plant	- Mkhuze Airport	- Technical support
National Empowerment Funding	- Funding opportunities in UMkhanyakude District	- Technical support
Tlakula B.E	- Funding opportunities	- Technical support
Trade and Investment KZN	- Investment Seminar	- Funding

## SECTION C: ACCOUNTABILITY

### 2.4 RELATIONSHIP BETWEEN THE UMHLOSINGA DEVELOPMENT AGENCY AND UMKHANYAKUDE DISTRICT MUNICIPALITY



### RELATIONSHIP WITH UMKHANYAKUDE DISTRICT MUNICIPALITY

The relationship between the UMDA and the UKDM is governed by the Municipal Systems Act; Municipal Finance Management Act and Companies Act. Over the years the relationship between the two has evolved. Whilst the relationship is highly regulated, both parties have made attempts to ensuring that good governance and transparency between the two remains through a relationship of trust.

## SHAREHOLDER AND MANAGEMENT

The relationship between the accounting officers of both institution is critical to the success of the local economic development mandate that is given to the UMDA. The UMDA engages the office of the municipal manager for both compliance and relationship requirements. The challenges which are facing the office of the municipal manager have a direct impact on the UMDA. For the 2016/17 FY the UMDA has spent most of the FY with building the relation with the office of municipal manager. One main challenge has been that of not having a permanent municipal manager. We hope in the coming financial year there would be stability in that office.

## SHAREHOLDER AND THE BOARD

The current political leadership came into office in August 2016. The new leadership combined what used to be the Community Services and the Planning and Economic Development and thus introduced the Community, Planning and Economic Development Portfolio (CPED), which is chaired by Cllr. Ngcobo. As a new committee the Board has engaged the CPED on the agency and its mandate. The CPED committee requested a workshop between itself and the Board the purpose of this workshop was:

- To understand the purpose and mandate of the UMDA,
- To unpack the UMDA's 2014-19 Strategy and milestones achieved to date, and
- To recommend the signing of the Shareholder Compact to the Executive Committee.

Management prepared for this workshop by putting together reports and document relating to the UMDA's establishment to projects and staff. Despite efforts made in planning this meeting, the meeting did not take place. To maintain the relationship, the Board submits quarterly reports to the committee and has delegated the Chief Executive Officer to attend the committee meetings. The UMDA Board as per Council resolution invites the committee to all board meeting.

The new council in the 2016/17 FY has brought much attention to the UMDA, amongst itself and stakeholders. The UMDA has spent majority of this FY with reporting and engaging requesting meetings with the new council. Management and the Board have been trying to manage the situation as a result of a council resolution relating to the UMDA. This friction between the shareholder and the UMDA has resulting in an unsigned Shareholder Compact for the FY. In attempts to stabilize the relationship, a meeting was thereafter held between the Board and the EXCO on the 16<sup>th</sup> of March 2017.

## 2.5 RISK MANAGEMENT

In accordance with the requirements of the MFMA, the Systems Act, the Company's Act, and principles outlined in the King Code report, the Board has the responsibility to manage the risk of the agency. The Board adopted the Risk Policy in the 2016/17 FY and has delegated the responsibility of risk management to the Chief Executive Officer.

The management of risk is conducted through a Risk Register which is audited by the internal audit unit on a quarterly bases. The key role players in risk management for the UMDA are as follows:



The Board selected 5 critical risks from the risk register and they are:

No	Risk	Risk Descriptions	Current Controls
1.	Business Sustainability	- Instability of UMhlosinga Development Agency	- Business plans and action plan. Monthly reports.
2.	Supply Chain Management	- Delays in Supply chain management processes and project implementation.	- UMDA Board of Directors has adopted an SCM Policy
3.	Expenditure Management	- Insufficient management of expenditure	- Credit Control. (Monthly reconciliation) Finance Policy. Procurement Plans
4.	Information Technology	- Crash of IT systems. Loss of electronic information. Virus on computers.	- ADSL contract with M-Web for uninterrupted internet access. I.T recovery plan in place.
5.	Asset Management	- Inaccurate asset register	- Asset Policy; Asset register. Quarterly Monitoring by Chief Financial Officer.

## 2.6 POLICIES

The UMDA has organizational policies which are to guide internal processes and adhere to principles of good governance. Every financial year the UMDA reviews all policies to ensure applicability and relevance of the policy. Whenever there is policy change, legislative amendments, increase in inflation and tariffs; the board amends the policies to ensure that they align with the country's state at the time.

From management, policies are submitted to the internal audit unit, the audit committee and the Board for final approval. In this financial year under review the following policies were amended:

<b>Policy</b>	<b>Existing Policy</b>	<b>New Policy</b>
Contractor Performance Management Policy	x	✓
Substance and Travel Policy	✓	x
Risk Management Policy	✓	x
Human Resources Management Policy	✓	x
Performance Management Systems Policy	✓	x
Petty Cash Policy	✓	x
Leave Policy	✓	x
Budget Policy	✓	x
Virement Policy	✓	x
Budget; Cash Management and Investment	✓	x
Written-Off Policy	✓	x
Finance Policy	✓	x
Fixed Asset	✓	x
Supply Chain Management Policy	✓	x
Information Technology and Security Policy	✓	x
Anti-Fraud and Corruption Strategy and Prevision Plan	✓	x

**UMDA's website is: [www.umda.org.za](http://www.umda.org.za)**

## CHAPTER 3

# SERVICE DELIVERY AND PERFORMANCE HIGHLIGHTS

## SECTION A: INVESTMENT PROMOTION

The UMDA hosted its first investment seminar on the 10<sup>th</sup> of February 2017. In the third year of the 2014-2019 Strategy implementation, UMDA has internally packaged most strategic objectives and programmes outlined in the strategy document. In the aim of widening the stakeholder investment pool, moving from purely public funding to investment partnerships, the investment seminar is the new approach that the UMDA will be using to market investment opportunities which are in the UMkhanyakude District.

The UMDA, as supported by Trade and Investment KZN (TIKZN) hosted the Investment Seminar and Networking Session which was linked to the UMthayi/Marula Festival. The seminar achieved its purpose which is to market the region of uMkhanyakude to potential investors. Among potential investors who attended were National Empowerment Fund (NEF), Industrial Development Corporation (IDC), Ithala Bank, Mondi Zimele and private investors.



*The theme of the seminar was “Exploring Investment Opportunities in UMkhanyakude district”.*

### **Network Session**



The Networking Session gala dinner was attended by more than 140 people. The evening session was addressed by MEC Sihle Zikalala and was attended by various stakeholders from the district, KZN province and other provinces as well as Swaziland and Mozambique. The turn-out was good, however, we could have done better could the date of UMthayi/Marula Festival been communicated earlier to allow ample time for preparation.

The UMDA plans to host this event annually with a purpose of linking it with UMthayi/Marula Festival.



## SECTION B: AGRIBUSINESS DEVELOPMENT

The potential for economic development in the district is what drives UMDA to the agribusiness development space. With its strategic objective of sustainable agribusiness industry development, UMDA focused on the development of programmes that will transform the agribusiness space of the district with a balance between primary agriculture and agro-processing strategies and plans, in the 2016/17 Financial Year. In the year under review the UMDA continued with some projects from the previous financial year and also introduced new programmes and projects, such as the Food Security Estate, and Farmer Support.

As a continuation from last financial year, the Fresh Produce Market business plan has been concluded. The fresh produce market concept aims to establish a virtual fresh produce market in the uMkhanyakude District to provide farmers in the district with access to markets. The UMDA increased its target for local produce for the National Schools Nutrition Project (NSNP) from 10% to 50%. This target provides local farmers with a stable market for their produce at a weekly bases as per the Coastal school calendar. To ensure that farmers are able to access the market and provide the required commodities, a new programme of farmer support has been established.

The main challenge when implementing any developmental programme is always the access to suitable land for the development. Majority of the work in the Agribusiness Unit was around the development of business plans and engagement for land for the Food Security project which also includes the Hydroponic Tunnels and the Bhambanana Abattoir. Engagements with the Ntenga Community Trust could soon be concluded which will unlock this challenge.





## SECTION C: TOURISM PROMOTION AND DEVELOPMENT

For the past few years, a lot has been happening behind the scenes regarding Route 22 Elephant Coast. While it serves as a marketing tool for the district, it also aims to address the issue of industry transformation. A lot of efforts and resources have been put to position the route to the market while taking cognizance of the existing brand, Elephant Coast.

**Tourism Indaba:** Route 22 Elephant Coast was fully represented at Tourism Indaba 2017 on 16 – 18 May 2017 at The Durban Exhibition Centre under Jozini Municipality stand. From the engagements with tour operators, they were looking for unique experiences and they showed a lot of interest on the planned Adventure Activities at Ingwavuma. Mkhuze Airport Development received a lot of attention from guests who visited the stand as they think it would shorten distance from various major tourism destinations and neighbouring countries.

**Tourist Map:** New tourist map has been developed and distributed at Tourism Indaba, major Visitor Information Centres, tourism products and border posts.

**Lilizela Awards:** For the first time, Route 22 Elephant Coast entered Lilizela Awards under Visitor Experience.



## SECTION C: INFRASTRUCTURE DEVELOPMENT

### Mkhuze Airport



The Mkhuze Airport Development has enjoyed numerous successes during the 2016/17 financial year. The Mkhuze Airport, with the financial backing of the Department of Economic Development, Tourism and Environmental Affairs, has completed its priority project, the fencing of the entire aviation side of the Mkhuze Airport. Together with EDTEA we were also able to get the Runway Rehabilitation project underway and is anticipated to be commenced within the 2017/18 financial year.

The development of the non-aviation commercial precinct concept for the Mkhuze Airport received a massive boost when UMDA was awarded environmental authorisation. The authorisation enables UMDA to now construct Non-Aviation commercial precinct and is a key instrument when searching for investment for further development.

The Mkhuze Airport has also been receiving increased spotlight this financial year with 2 requests to utilise the site/runway to host events. In December, the airport played host to the World of Motorsport community and held a drag racing time trial event, which saw over 50 contestants arrive on the day. A request from the South African Air Force to utilise the Mkhuze Airport for a training exercise was also received and accepted by UMDA. This event will see over 100 soldiers stationed at the Airport for over a month in the early months of the 2017/18 financial year.

Going forward into the 2017/18 financial year, the Mkhuze Airport project will continue to strive to achieve its targets and fulfil its catalytic potential and change the economic landscape of the Umkhanyakude District.

## **Jozini Hydro**

An implementing company has been appointed for the Jozini Hydro project. The appointment was made for the purposes of reviewing the feasibility study and the initiation of all applications as required for the hydro to be fully functional. The review will provide revised requirements and costing for the project.

## **Small Town Rehabilitation**

The Small Town Rehabilitation Programme which is funded by the KwaZulu Natal Department Corporative Governance and Traditional Affairs is directed at assisting in planning and beautification of small towns. In the previous financial year two of the three projects were completed and close out reports submitted to the department. The only project from this funding which was being implemented this financial year was the Construction Ndumo Market Stalls. The project is almost complete with the following:

- Construction of 68 market stalls,
- ablution block which accommodate disable traders,
- septic tank with Jojo tank, and
- a minibus/van rank with six shelters.

The UMDA further developed a business plan for the construction of Mkuze Market Stalls which thereafter submitted with drawings and tender document to COGTA and the Jozini Municipality. The UMDA has engaged both public and private investors for the development of UMkhanyakude's small towns. A proposal which will be used to source funds has been developed.

## SECTION F: ANNUAL PERFORMANCE REPORT



*"Opportunity  
through Development"*

### ANNUAL PERFORMANCE REPORT 2016/17

#### KEY PERFORMANCE AREA no. 1

#### GOOD GOVERNANCE

Strategic Objective	KPI no.	Performance Indicator	Actual Achievement 2015/16	Planned Target 2016/17	Actual Achievement 2016/17	Rating	Reasons for Deviation	Corrective Measures for Deviation
To ensure compliance with legislation applicable to municipal entities and principals outlined in the Kind III Report	1.1	Checklist reviewed by Audit Committee (AC) and adopted by the Board (BoD)	Checklist reviewed on 28 June 2016 and adopted on 29 June 2016	2 Comprehensive Compliance checklist reviewed by AC and adopted by the BoD	2 Comprehensive Checklist reports the AC and adopted by the BoD	Achieved	None	n/a
	1.2	Organisational policies reviews by Audit Committee and adopted by Board	14 policies reviewed on 28 June 2016 and adopted on 29 June 2016	20 policies reviewed by the AC and adopted by the BoD by 30 June 2017	6 policies adopted by the BoD on 09 December 2016 10 policies reviewed by AC on 15 May 2017	Partly Achieved	AC advised that policies need to be reviewed by the internal auditor before adoption by the BoD	Policies will be submitted to the internal auditors before submission to AC for review and adoption by the BoD in the 2017/18 FY.

**KEY PERFORMANCE AREA no. 1**

**GOOD GOVERNANCE**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>To ensure compliance with legislation applicable to municipal entities and principals outlined in the Kind III Report</b>	1.2.1	Shareholder Compact and Annual Performance Targets signed by the UMDA Chairperson of the Board and UKDM Mayor	Shareholder Compact and Annual Performance Plan signed between UMDA Chairperson and UKDM Mayor on 31 March 2016	Signed Shareholder Compact and 2016/17 Organisational Scorecard signed by 30 June 2017	Shareholder Compact not signed at 30 June 2017	Not Achieved	A resolution taken by Council to suspend all transaction with the UMDA and engagements between the BoD and Council were unsuccessful which led to the deviation.	There is a planned meeting between the BoD and Council for the 05 <sup>th</sup> of September 2017 to deal with the Council rescission resolution.
	1.2.2	Quarterly reports submitted to UKDM	4 reports submitted by 30 June 2016	4 reports submitted to UKDM by 30 June 2017	4 reports submitted at 30 June 2017	Achieved	None	n/a
	1.3	Quarterly Board meetings	4 Board meetings held by 30 June 2016	4 Board meetings by 30 June 2017	4 Board meetings held at 30 June 2017	Achieved	None	n/a
	1.4	Quarterly Audit Committee meeting	3 Audit Committee meetings held by 30 June 2016	4 Audit Committee meetings by 30 June 2016	3 Audit Committee meetings at 30 June 2016	Partly Achieved	UKDM officials advised the AC not to perform audit committee functions for the UMDA.	BoD consider adopting the AC of the UKDM for the 2017/18 FY.

**KEY PERFORMANCE AREA no. 2**

**LOCAL ECONOMIC DEVELOPMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>To ensure compliance with legislation applicable to municipal entities and principals outlined in the Kind III Report</b>	1.5.1	Quarterly Internal Audit assessment reports	New target	4 Internal Audit Assessment report	Risk, SCM and Financials audited at 30 June 2017	Partly Achieved	Internal audit unit appointment delayed due to UKDM failing to take a resolution in time that the two entities would share the internal audit unit and SCM processes led to the deviation	An internal audit firm has been appointed for a period of three years and the internal audit action plan will be developed in the first quarter of 2017/18 FY to ensure that projected target is met.
	1.5.2	Accurate and Audited PoEs	New target	4 PoE reports by 30 June 2017	PoE reports for Q1, Q2 and Q3 conducted audited at 30 June 2017	Partly Achieved		
<b>To create partnerships that encourage investment into UMkhanyakude</b>	2.1.1	Investment promotion dialog	New target	Investment committee by 30 June 2017	Investment profile, seminar and committee established at 30 June 2017	Achieved	None	n/a
	2.1.2	Stakeholder engagements for capital project support	10 engagements made and 2 agreements signed by 30 June 2016	16 engagements with stakeholders for capital project support by 30 June 2017	22 engagements and 2 agreements signed with stakeholders for capital project support at 30 June 2017.	Exceeded	None	n/a

**KEY PERFORMANCE AREA no. 2**

**LOCAL ECONOMIC DEVELOPMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>To develop world class tourism products</b>	2.2.1	Prefeasibility Study for Hlabisa Node	Engagements with Mpembeni Traditional Council for the purposes of signing an MoU	Prefeasibility Report for Hlabisa Node by 30 June 2017	Prefeasibility Report for Hlabisa Node at 30 June 2017	Achieved	None	n/a
	2.2.2	Feasibility study for Jozini Node	Engagements Memorandum of Understanding signed by 30 June 2016	Feasibility Report for Jozini Node by 30 June 2017	Feasibility Report for Jozini Node at 30 June 2017	Achieved	None	n/a
	2.2.3	Prefeasibility Study for the Jozini Mountain Top Development	New target	Prefeasibility Study for Jozini Mountain Top by 30 June 2017	Prefeasibility Study for Jozini Mountain Top at 30 June 2017	Achieved	None	n/a
	2.2.4	Prefeasibility Study for the UMhlabuyalingana Node	New target	Prefeasibility Study for UMhlabuyalingana Node by 30 June 2017	Prefeasibility Study for UMhlabuyalingana Node at 30 June 2017	Achieved	None	n/a

**KEY PERFORMANCE AREA no. 2**  
**LOCAL ECONOMIC DEVELOPMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>To develop world class tourism products</b>	2.2.5	Implementation of Phase A	Business Plan approved by the Board	Implementation of Phase A by 30 June 2017	Application for accreditation and engagements for training facilities	Not Achieved	Implementation of Phase A has not been completed due to limited resources.	An application for funding has been submitted are awaiting response on the application from Cathsseta a follow-up meeting is scheduled for the first quarter of the 2017/18 FY.
	2.2.6	Marketing of Route 22	New target	Marketing of Route 22 by 30 June 2017	Marketing of Route 22 at 30 June 2017	Achieved	None	n/a
<b>To develop sustainable commercialisation of Agriculture and Agribusiness industries in the UMkhanyakude District</b>	2.3.1.1	Board Approved Business Plan	New target	Business Plan for Fresh Produce Market by 30 June 2017	Business Plan approved at 30 June 2017	Achieved	None	n/a
	2.3.1.2	Food Security Estate	New target	Project Packaging by 30 June 2017	Projects under the Food Security Estate packaged at 30 June 2017	Achieved	None	n/a
	2.3.2	Securing of land for the hydroponic tunnels	Business Plan approved by the Board	Land for hydroponics tunnels by 30 June 2017	Engagements for land conducted, hydroponic drawings and cost estimates	Not Achieved	Negotiations and engagement delayed which led to the deviation.	The trust which is responsible for the land have agreed to sign a lease agreement. The agreement will be concluded in the first quarter of the 2017/18 FY.



**KEY PERFORMANCE AREA no. 2**  
**LOCAL ECONOMIC DEVELOPMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>To develop sustainable commercialisation of Agriculture and Agribusiness industries in UMkhanyakude</b>	2.3.3.1	Sustainable supply of produce received from local farmers	10% of local produce received	50% of locally produced fruits and vegetables supplied to 533 schools weekly	45.1% on average of local produce at 30 June 2017	Partly achieved	Farmers' plantation varied as some months farmers oversupplied the NSNP market and at times did not plant the required produce.	Agreement on planting schedules are to be finalised through the farmer support programme. This will assist in ensuring that farmers plant all the required produce in order to meet the target in the 2017/18 FY.
	2.3.3.2	Supply of fruits and vegetables to 533 schools	Delivery less than 533 school per week	Delivery to all 533 schools per week by 30 June 2017	Delivery at 491 schools on average per week as at 30 June 2017	Partly Achieved	Delivery to some schools in particularly raining weather was challenging. Whilst some weeks delivery was at 100%, but an annual average of the 49 weeks delivery was at average of 491 throughout the year.	An action plan will be created in the first quarter of the 2017/18 FY to ensure that all schools are accessed and delivered to on a weekly basis and logistical challenges for delivery to schools are addressed
	2.3.3.3	Farmer support	New target	Farmer support for UMkhanyakude Farmers	Farmer support implemented	Achieved	None	n/a

**KEY PERFORMANCE AREA no. 2**  
**LOCAL ECONOMIC DEVELOPMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>To develop world class catalytic infrastructure that promotes economic development</b>	2.4.1	Development of a town rehabilitation plan	New target	Rehabilitation and regeneration plan by 30 June 2017	Proposal for rehabilitation plan done at 30 June 2017	Partly Achieved	There was limited resources to conduct the plan.	Implementing agent appointed to assist with plan in the 2017/18.
	2.4.2	Engagement with investors	New target	Engagement with investors by 30 June 2017	Engagements made at 30 June 2017	Achieved	None	n/a
	2.4.3	Business Plan for project identified in the Mkhuze Regeneration Plan	Mkhuze Regeneration Plan approved by the Board	2 business plan by 30 June 2017	2 business plans developed at 30 June 2017	Achieved	None	n/a
	2.4.4	Construction of Ndumo Market Stalls	Tender process initiated for the appointment of a contractor	Handover of Ndumo Market Stalls by 30 June 2017	Construction of Ndumo Market Stalls at 30 June 2017	Partly Achieved	Additional works which were necessary but not in the Bill of Quantities were added to the scope of works which led to the deviation.	Project will be completed and handed over in the first quarter of the 2017/18 FY.

**KEY PERFORMANCE AREA no. 2**  
**LOCAL ECONOMIC DEVELOPMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>To develop settlements that promote urbanisation and industrialisation</b>	2.4.5	Application for funding	Mkhuze Market Stalls Designs approved	Application for funding by 30 June 2017	Application for funding made at 30 June 2017	Achieved	None	n/a
	2.5.1	Project Packaging	Two sites identified for Special Economic Zone	Project packaging by 30 June 2017	Project packaged at 30 June 2017	Achieved	None	n/a
	2.5.2	Application for funding		Application for funding by 30 June 2017	Application for funding made at 30 June 2017	Achieved	None	n/a
	2.6.1	Technical studies	EIA submitted for public comments	Completion of outstanding studies by 30 June 2017	Record of Decision obtained at 30 June 2017	Exceeded	None	n/a
	2.6.2	Fencing	New target	Fencing the airport by 30 June 2017	Fence completed	Achieved	None	n/a
	2.6.3	Runway rehabilitation	New target	Commencement of runway rehabilitation by 30 June 2017	Tender phase for the appointment of contractor initiated	Not Achieved	Delay in confirmation and transfer of funds caused the delay.	SCM process to be completed in the first quarter of the 2017/18 FY.

**KEY PERFORMANCE AREA no. 2**  
**LOCAL ECONOMIC DEVELOPMENT**

Strategic Objective	KPI no.	Performance Indicator	Actual Achievement 2015/16	Planned Target 2016/17	Actual Achievement 2016/17	Rating	Reasons for Deviation	Corrective Measures for Deviation
<b>To develop world class infrastructure that promotes economic development</b>	2.6.4	PDA Application	PDA Application forms completed	PDA Application by 30 June 2017	Terms of Reference for the appointment of service provider at 30 June 2017	Not Achieved	PDA application required inputs from a land surveyor and a town planner. The SCM process of appointing delayed which led to the deviation.	Land surveyor and town planner will be appointed in order to submit the PDA application before the midterm of the 2017/18 FY.
	2.6.5	Sign airline contract	Airline contract signed	Sign airline contract by 30 June 2017	Airline operators engaged and expressed intension to sign with the agency at 30 June 2017	Not Achieved	Airline operators were engaged but required an upgraded runway, terminal building and fire truck. Lack of funds delayed the signing of an airline contract.	Funds for the runway rehabilitation has been confirmed, stakeholders will be engaged for the terminal building and fire extinguisher. Airliners will be requested to commit on the airport during the first quarter of 2017/18 FY.
	2.6.6	Maintenance of airport	New target	4 reports by 30 June 2017	4 report at 30 June 2017	Achieved	None	n/a
	2.7	Engaging IDC	Feasibility Study conducted	Engage IDC	IDC engaged	Achieved	None	n/a
	2.8	Obtain authorisations	Project funding proposal developed	Obtain authorisations by 30 June 2017	Letters requesting authorisation submitted and one authorisation received at 30 June 2017	Partly Achieved	Letters to Dept. Energy and the Dept. of Water and Sanitation. Dept. of Water and Sanitation has approved with regulatory conditions.	A follow-up will be made with the Dept. Energy in the first quarter of the 2017/18 FY.

## KEY PERFORMANCE AREA no. 2

## LOCAL ECONOMIC DEVELOPMENT

Strategic Objective	KPI no.	Performance Indicator	Actual Achievement 2015/16	Planned Target 2016/17	Actual Achievement 2016/17	Rating	Reasons for Deviation	Corrective Measures for Deviation
To develop world class catalytic infrastructure that promotes economic development	2.9	Project packaging	New target	Project packaging for Solar Electricity Generation by 30 June 2017	Project not packaged at 30 June 2017	Not Achieved	National Government is currently not supporting renewable energy projects	Project will be placed on hold in order to align with current government's direction with energy.
	2.10	Project packaging	New target	Project packaging for Manzengwenya Biomass Project 30 June 2017	Project not packaged at 30 June 2017	Not Achieved	National Government is currently not supporting renewable energy projects	Project will be placed on hold in order to align with current government's direction with energy.
	2.11	Project packaging	New target	Project packaging for Wind Energy 30 June 2017	Project not packaged at 30 June 2017	Not Achieved	National Government is currently not supporting renewable energy projects	Project will be placed on hold in order to align with current government's direction with energy.
	2.12	Project packaging	New target	Project packaging for Waste Management Programme 30 June 2017	Project packaged at 30 June 2017	Achieved	None	n/a
	2.13	Project packaging	New target	Project packaging for Sewer Management Programme	Project not packaged	Not Achieved	National Government is currently not supporting renewable energy projects	Project will be placed on hold in order to align with current government's direction with energy.

**KEY PERFORMANCE AREA no. 3**

**INSTITUTIONAL DEVELOPMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>Implement Performance Management</b>	3.1	Employee Performance Management	2 performance reviews conducted done for managers reporting to the CEO	2 written performance reviews for all employees by 30 June 2017	06 of the 17 had their performance reviews conducted at 30 June 2017	2 Partly Achieved	A quorum for the evaluating committee was not reached for the evaluation of the CEO and CFO and the other employees were not applicable as per PMS policy which then led to the deviation.	A calendar for Board, AC and Evaluating committee will be set in order to achieve the target by the first quarter of the 2017/18 FY
<b>To improve the capacity of staff for service delivery</b>	3.2	Employee skills audit	Skills audit conducted	25% of employees trained by 30 June 2017	40% of employees trained at 30 June 2017	Achieved	None	n/a

**KEY PERFORMANCE AREA no. 4**

**FINANCIAL VIABILITY AND MANAGEMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>Sound financial planning and reporting</b>	4.1.1	Adoption of draft annual report adopted by Board	Draft Annual Report adopted by the Board	Draft Annual report adopted by 31 August 2016	Draft Annual Report adopted on the 26 <sup>th</sup> of August 2016	Achieved	None	n/a
	4.1.2	Annual Report adopted by Board	Annual Report adopted by Board	Annual Report adopted by Board by 20 Jan. 2017	Annual Report adopted by Board on the 09 <sup>th</sup> of Dec. 2016	Achieved	None	n/a
	4.2.1	Adjusted Budget approved by Board	Adjusted Budget approved by Board	Adjusted Budget approved by Board by 20 Jan. 2017	Adj. Budget approved by Board on the 20 <sup>th</sup> of January 2017	Achieved	None	n/a
	4.2.2	Draft Budget approved by Board	Draft Budget approved by Board	Draft Budget approved by Board by 20 Jan. 2017	Draft Budget approved by Board on the 20 <sup>th</sup> of January 2017	Achieved	None	n/a
	4.2.3	Budget approved by Board	2015/16 Budget approved by Board	2016/17 Budget approved by Board by 30 May 2017	2016/17 Budget approved by Board on the 30 <sup>th</sup> of May 2017	Achieved	None	n/a

**KEY PERFORMANCE AREA no. 4**  
**FINANCIAL VIABILITY AND MANAGEMENT**

<b>Strategic Objective</b>	<b>KPI no.</b>	<b>Performance Indicator</b>	<b>Actual Achievement 2015/16</b>	<b>Planned Target 2016/17</b>	<b>Actual Achievement 2016/17</b>	<b>Rating</b>	<b>Reasons for Deviation</b>	<b>Corrective Measures for Deviation</b>
<b>Sound financial planning and reporting</b>	4.3.1	S87(11) Reports	S87 (11) Reports submitted to MM	12 S87(11) Reports submitted to MM by 30 June 2017	12 S87(11) Reports submitted to MM at 30 June 2017	Achieved	None	n/a
	4.3.2	Prepare Interim AFS	Interim AFS submitted to the Board	Interim AFS submitted to the board by 20 Jan. 2017	Interim AFS submitted to the Board at 20 Jan. 2017	Achieved	None	n/a
	4.3.3	Preparation of MFMA S88 Reports	MFMA S88 Reports submitted to the Board and UKDM	Midterm budget and performance assessment reports submitted to the Board and UKDM by 20 Jan. 2017	Midterm assessment reports submitted to the Board at 20 Jan. 2017	Achieved	None	n/a
	4.3.4	Preparation of MFMA S122 Statements	2014/15 AFS submitted to AG	2015/16 AFS submitted to AG by 31 August 2016	2014/15 AFS submitted to AG 31 August 2016	Achieved	None	n/a



**The following presents planned targets and indicators not that were adjudted during the midterm assessment period.**

**This in line with:**

National Treasury annual report guide for the presentation of the annual report and FMPPi chapter 5 requires: -

- 1) Reasons for variances between planned and actual performance be disclosed;
- 2) Reasons for variances are supported by corroborating source documentation.

## Notes on Annual Performance Plan Adjustments at Midterm

Planned indicators before adjustment	Adjusted indicators	Planned targets before adjustment	Planned targets after adjustment	Reasons for adjustment
<b>Strategic Objective: Adherence to the MFMA, MSA and the Company's Act 1.1</b>				
Compliance Checklist reviewed by Audit Committee and adopted by the BoD.	Compliance Checklist reviewed by Audit Committee and adopted by the BoD	4 Comprehensive Compliance Checklists reviewed by AC and adopted by the BoD	2 Comprehensive Compliance Checklists reviewed by AC and adopted by the BoD	<ul style="list-style-type: none"> <li>- Company Secretary appointed in November 2016.</li> <li>- Company Secretary tasked with firstly, the review and updating of the checklist for approval by the Board before population of reports.</li> </ul>
<b>Strategic Objective: Relationship with the Parent Municipality</b>				
Shareholder Compact and Annual Performance Targets signed by the UMDA's Chairperson of the Board and the Parent Municipality's Mayor.	Shareholder Compact and Annual Performance Targets signed by the UMDA's Chairperson of the Board and the Parent Municipality's Mayor.	Signed Shareholder Compact and 2016/17 Organisational Scorecard by 30 September 2016	Signed Shareholder Compact and 2016/17 Organisational Scorecard by 30 June 2017	<ul style="list-style-type: none"> <li>- The change in political leadership in August 2016 resulted in the delay.</li> <li>- UMDA had to engage the new management and council on the importance of signing the Shareholder Compact.</li> </ul>

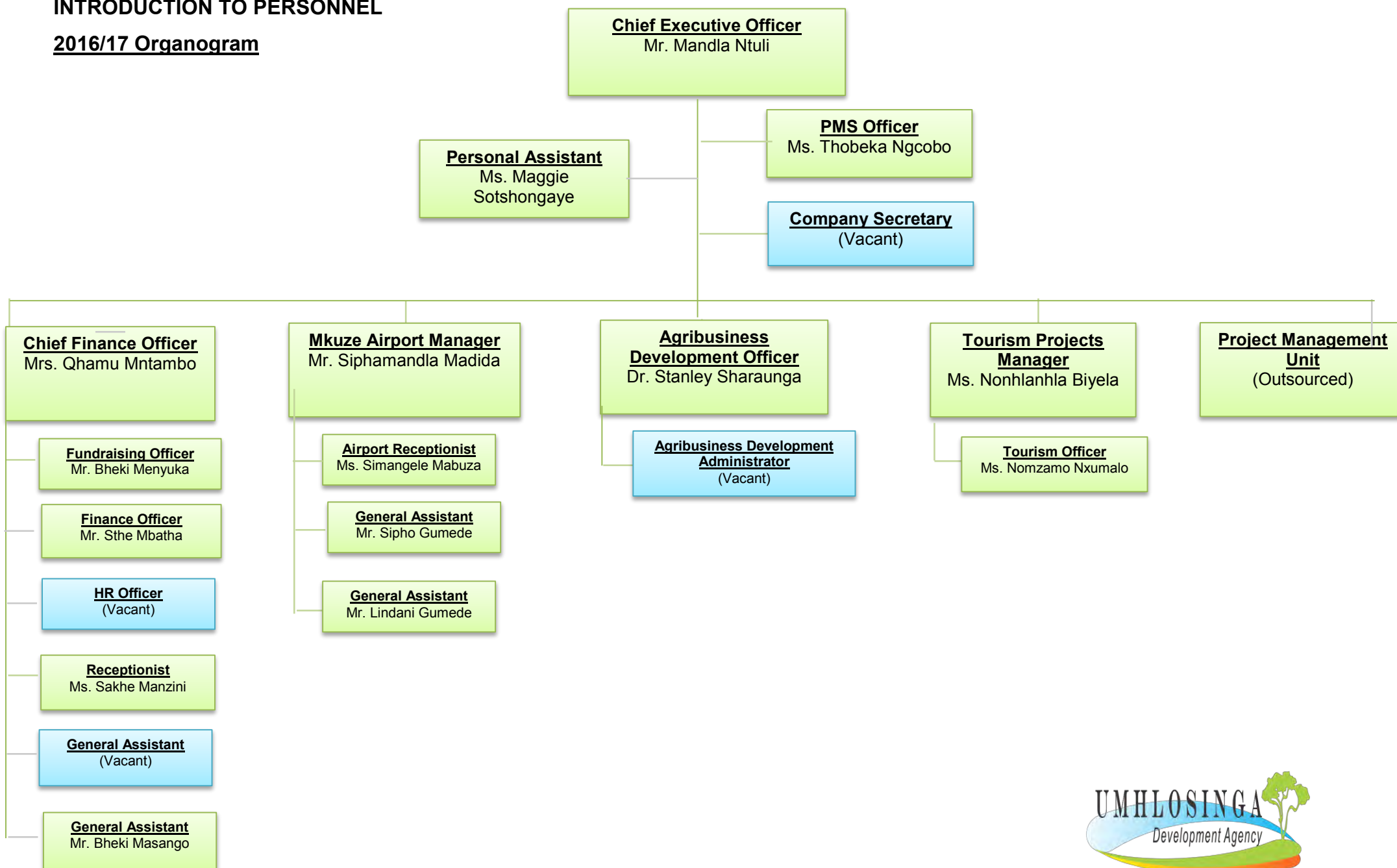
Planned indicators before adjustment	Adjusted indicators	Planned targets before adjustment	Planned targets after adjustment	Reasons for adjustment
<b>Strategic Objective: Small Town Rehabilitation: 2.4.5 Mkhuze Market Stalls</b>				
Construction of Mkhuze Market Stalls	Application for funding	Construction of Mkhuze Market Stalls	Application for funding by 30 June 2017	- Establishment Phase of the project was completed only in October 2016, the construction would not be feasible given the delays in by the service provider in the first six months of the financial year.
<b>Strategic Objective: District Broadband Rollout 2.7</b>				
Feasibility Report	Engaging IDC	Feasibility report	Engage IDC	- The service providers for the Broadband Feasibility Study were appointed by the IDC to develop the study. The UMDA needed to engage with the IDC as the service provider has not made any communication regarding the completion of the feasibility study the first six months of the project.
<b>Strategic Objective 2.8 Jozini Hydro</b>				
Obtain authorisations	Obtain authorisations	Application for authorisations	Obtain authorisations by 30 June 2017	- Initial approach changed as potential investors through engagements made with potential investors.

## CHAPTER 4

# ORGANISATIONAL DEVELOPMENT PERFORMANCE

# INTRODUCTION TO PERSONNEL

## 2016/17 Organogram



#### 4.1 EMPLOYEE TOTALS, TURNOVER AND VACANCIES

Description	2015/16			2016/17		
	Approved Posts	Filled	Vacancies	Approved Posts	Filled	Vacancies
Executive Managers	0	0	0	0	0	0
Senior Managers	1	0	1	0	1	0
Project Managers	0	0	0	2	2	0
Officers/Admin/Coordinators	0	0	0	2	1	1
Receptionist	0	0	0	0	0	0
General workers	0	0	0	3	0	3
<b>Total</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>7</b>	<b>4</b>	<b>4</b>

#### TURN-OVER RATE

Details	Total appointment as of beginning of financial year No.	Terminations durations during the Financial Year No.	Turn-over Rate.
2015/16	4	1	7.5%
2016/17	3	2	4.25%

## SECTION B: MANAGING THE MUNICIPAL ENTITY EMPLOYEE WORKFORCE

### 4.2 POLICIES

The table overleaf provides a summary of the HR policies:

HR Policies and Plans				
No.	Policy	Completed %	Date Reviewed	Date approved
1	Human Resources Policy	100%	28.06.16	29.06.16
2	Training and Development Policy	100%		
3	Performance Management Policy	100%		
4	Leave Policy	100%		

- ✓ The policies were approved in the previous financial year and there were no legislative, or policy changes in the country which required the policies to be amended.

### 4.3 EMPLOYMENT EQUITY

The organisation implements a vibrant employment equity policy. To ensure the highest standard of compliance with the employment equity act and the Board of Directors also provide regular input to the strategies and initiatives regarding EE and its implementation in the organisation.

The Employment Equity Statistics are sourced to provide progress and provide direction regarding progress in the implementation of the employment equity plan.

## Employment Equity Demographics Status for 2016/17

### Staff Movement

Staff Movements	African		Coloured		Indian		White		Total
	Male	Female	Male	Female	Male	Female	Male	Female	
Appointments	-	-	-	-	-	-	-	-	0
Resignations	-	1	-	-	-	-	-	-	1
Dismissals	-	-	-	-	-	-	-	-	-
Retirement	-	1	-	-	-	-	-	-	1
Absenteeism	-	-	-	-	-	-	-	-	-
Termination	-	-	-	-	-	-	-	-	-
<b>Total</b>	0	2	0	0	0	0	0	0	2

### Employment Equity Status

(Demographics) 2016/17

LEVELS	African		Coloured		Indian		White		Total
	Male	Female	Male	Female	Male	Female	Male	Female	
<b>Executive</b>	1	-	-	-	-	-	-	-	1
<b>Senior Managers</b>	-	1	-	-	-	-	-	-	1
<b>Project Managers</b>	1	1	-	-	-	-	-	-	2
<b>Officers/Co-coordinators</b>	3	3	-	-	-	-	-	-	6
<b>Receptionist</b>	-	2	-	-	-	-	-	-	2
<b>General workers</b>	3	-	-	-	-	-	-	-	3
<b>Total</b>	8	7	-	-	-	-	-	-	15
<b>% of Total</b>	53%	47%	0%	0%	0%	0%	0%	0%	100%



## Management Level Demographics

Levels	Total	African		Coloured		Indians		White	
		Male	Female	Male	Female	Male	Female	Male	Female
<b>Executive</b>	1	1	-	-	-	-	-	-	-
<b>Management</b>	3	1	2	-	-	-	-	-	-
<b>Total</b>	4	2	2	-	-	-	-	-	-
<b>%of Total</b>	100%	50%	50%	0	0	0	0	0	-

## Staff Turnover

The UMDA has 100% Black employees, which exceeds the target of 80% provided in the Employment Equity Plan; 47% of which are female and 50% is in Senior Management.

## Employee Pension Fund

The UMDA's employees have been registered as members of Bokamoso Pension Fund.

Other benefits provided to UMDA's employees are:

- Medical Aid offered by Bonitas,
- Travel allowance and
- Telephone allowance.

## Performance Management and Bonus System

The performance management system (PMS) is designed to ensure that the UMDA's business strategy is translated into measurable key performance areas and indicators (KPAs and KPIs) for employees. The UMDA's performance management is guided by the principals outlined in the Framework for Managing Programme Performance Information provided by the National Treasury as published in May 2007. During the year under review the UMDA developed a Performance Management Policy which was adopted by the Board.

## SECTION C: CAPACITATING THE MUNICIPAL ENTITY WORKFORCE

The UMDA continues to train employees in various methods in an effort to capacitate them and ensure that they are able to perform their respective duties. Methods which have been used to capacitate employees are:

- On-the-job training;
- Workshops;
- Trainings; and
- Formal education

The following trainings and workshops have been attended:

<b><i>Employee</i></b>	<b>Capacity building training/workshop</b>
<b><i>PMS Officer</i></b>	- Post-grad in Local Economic Development
<b><i>PA to CEO</i></b>	- Bachelor Degree in Commerce
<b><i>Tourism Officer</i></b>	- Bachelor Degree in Marketing
<b><i>Airport Manager</i></b>	- Aviation Workshop
<b><i>Finance Officer</i></b>	- Bachelor in Supply Chain Management
<b><i>Receptionist</i></b>	- Honours in Public Management

# CHAPTER 5

## FINANCIAL PERFORMANCE

**Umhlosinga Development Agency (Proprietary) Limited**  
(Registration No. 2004/016608/07)  
**Annual Financial Statements**  
**for the year ended 30 June 2017**

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## General Information

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Country of Incorporation and domicile	Republic of South Africa
Category of local authority	A municipal entity of Umkhanyakude District Municipality
Nature of business and principle activities	Local economic development to facilitate the implementation of economic catalytic projects including the promotion of investments in the district.
Board of Directors	Mr. RP Tembe (Chairperson) Mr. SL Gumbi (Deputy Chairperson) Mr. ZJ Ndwandwe (Member) Mr. S Nyawo (Member) Mr. MW Thango (Member)
Chief Executive Officer	Mr. M Ntuli (B.Proc. Uni.KZN)
Chief Financial Officer	Mrs. SQ Mntambo (Bcom Acc, AIMFO, MFMP)
Registered office	21 Klebe Street Mkhuze KwaZulu Natal 3965
Business address	Lot 308 Ebony Crescent Mtubatuba 3935
Postal address	PO Box 367 St Lucia 3936
Bankers	Nedbank Limited
Auditors	Auditor-General of South Africa
Company secretary	Venns Nemeth & Hart Inc. (Appointed May 2017) Advocate of the High Court of South Africa LLB (Wits), LLM (UKZN) Ms. B.T Njoko (Resigned 30 April 2017)



# Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Index

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The reports and statements set out below comprise the annual financial statements presented to the parent entity:

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General information	
Directors Responsibilities and Approval	
Auditor General Report	
Chief Executive Officer's Report	
Directors Report	
Company Secretary's Certification	
Statement of Financial Position	
Statement of Financial Performance	
Statement of Changes in Net Assets	
Cash Flow Statement	
Statement of Comparison of Budget and Actual Amounts	
Accounting Policies	
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## **Directors Responsibilities and Approval**

In terms of Generally Recognised Accounting Practice (GRAP) and the South African Companies Act No 71 of 2008, the directors are required to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with GRAP. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the Standards of GRAP and are based on appropriate accounting policies which have been consistently applied in previous years and are supported by reasonable, prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, they set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors have reviewed the company's cash flow forecast for the year to 30 June 2018. In the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 4 to 5.

The annual financial statements set out on pages 9 to 42 have been prepared on the going concern basis and were approved by the Board of Directors and the Chief Executive Officer on 28 August 2017.



# **Umhloosinga Development Agency SOC Limited**

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## **Chief Executive Officer's Report**

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Umhloosinga Development Agency is situated in 308 Ebony Crescent, Mtubatuba, is a municipal entity of Umkhanyakude District Municipality established in terms of Section 12(1) of the Municipal Structures Act, 1998(Act No. 117 of 1998).

I am responsible for the preparation of the annual financial statements which are set out on pages 9 to 42 in terms of section 126 (2) of the Municipal Finance Management Act No. 56 of 2003 which I have signed on behalf of the municipal entity.

As required by Section 45 of the Municipal Systems Act and Section 121(4)(a) and (b) of the Municipal Finance Management Act, the annual financial statements were submitted to the Auditor General South Africa (AGSA) on 31 August 2017.



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Accounting Officer

MM Ntuli (B Proc)

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Directors Report

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The board of directors has pleasure in presenting their report for the year ended 30 June 2017.

### 1 Incorporation

The company was incorporated on and received its certificate to commence business on 17 June 2004.

The company was originally incorporated under the name of Maxitrade 42 General Trading (Proprietary) Limited and changed its name on 04 July 2006 to uMhlosinga Development Agency (Proprietary) Limited. It remained dormant until 01 January 2008 when the establishment phase commenced. Upon the coming into operation of the new Companies Act 71 of 2008, section 11(3) (c) provides that the Agency's name is to contain the expression "SOC Ltd" at the end. The amendments registration were effective as at 19 April 2017.

### 2 Review of activities

The company acts as an agent for and on behalf of uMkhanyakude District Municipality for the purpose of soliciting and implementing economic development activities and all the business allied thereto in order to ensure the development of the uMkhanyakude District Municipality and its surrounding areas.

The net surplus of the company for the year under review as disclosed in the Statement of Financial Performance was R5 127 303.

### 3 Going concern concept

The annual financial statements have been prepared based on 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, dependant on the receiving of grant allocations. On 27 March 2017, the shareholder, uMkhanyakude District Municipality, resolved to suspend all activities with the agency. Subsequent meetings were held with stakeholders to address the suspension. The result of which a meeting will be held with the council of the district to rescind the suspension on 5 September 2017. The board of directors are confident that the entity will continue as going concern.

### 4 Share capital

Authorised

The authorised share capital comprises  
of 1000 Ordinary shares of R1 each

2017

2016

1 000

1 000

Issued

The issued share capital comprises  
of 100 Ordinary shares of R1 each

100

100

## **5 Directorate**

The board of directors are as follows as at 30 June 2017:

	Date of appointment
RP Tembe	26-Mar-13
SL Gumbi	26-Mar-13
ZJ Ndwandwe	26-Mar-13
S Nyawo	26-Mar-13
MW Thango	26-Mar-13

## **6 Holding municipality**

UMkhanyakude District Municipality is the company's parent holding municipality.

## **7 Auditors**

In accordance with section 4 (1) (e) of the Public Audit Act No. 25 of 2004, the Auditor-General of South Africa are the auditors of the company.

## **Umhlosinga Development Agency SOC Limited**

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

### **Company Secretary's Certification**

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In terms of section 88(2)(e) of the Companies Act (2008) of South Africa, I certify that, to the best of my knowledge and belief, the Umhlosinga Development Agency has lodged with the Registrar of Companies for the financial year ended 30 June 2017 all such returns as are required in terms of the Companies Act, No. 71 of 2008, and that such returns are true, correct and up to date. I certify that for the financial year ended 30 June 2017, the Umhlosinga Development Agency has lodged with the Umkhanyakude District Municipality the financial statements in respect of the preceding financial year.

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Venns Nemeth & Hart Inc.

Mr. T Brown (attorney)

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31-Aug-17

Date

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

	Note(s)	2017 R	2016 R
<b>Assets</b>			
<b>Current Assets</b>			
Trade and other receivables from exchange transactions	3	7 933 061	7 348 486
Trade and other receivables from non-exchange transactions	4	5 030 158	5 030 158
Cash and cash equivalents	5	2 171 964	5 208 269
VAT Receivable	6	903 935	513 725
		<b>16 039 118</b>	<b>18 100 638</b>
<b>Non-Current Assets</b>			
Property plant and equipment	7	6 896 305	617 292
		<b>6 896 305</b>	<b>617 292</b>
<b>Total Assets</b>		<b>22 935 423</b>	<b>18 717 930</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	8	6 496 761	5 540 418
Unspent conditional grants and receipts	9	8 419 710	10 283 437
Provisions	10	283 072	183 065
		<b>15 199 543</b>	<b>16 006 920</b>
<b>Total Liabilities</b>		<b>15 199 543</b>	<b>16 006 920</b>
Total Assets		22 935 423	18 717 930
Total Liabilities		(15 199 543)	(16 006 920)
<b>Net Assets</b>		<b>7 735 880</b>	<b>2 711 010</b>
Ordinary Shares	33	100	100
Accumulated surplus		7 735 780	2 710 910

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

	Note(s)	2017 R	2016 R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Interest earned - external investments	11	189 806	108 820
Other income	12	197 144	174 873
<b>Total revenue from exchange transactions</b>		<b>386 950</b>	<b>283 693</b>
<b>Revenue from non-exchange transactions</b>			
Service in kind	33	146 421	136 842
Government grants & subsidies	13	36 619 237	26 200 177
<b>Total revenue from non-exchange transactions</b>		<b>36 765 658</b>	<b>26 337 019</b>
<b>Total revenue</b>		<b>37 152 609</b>	<b>26 620 712</b>
<b>Expenditure</b>			
Depreciation expense	7	160 104	167 597
Employee related costs	14	6 229 524	5 278 136
Directors Emoluments	15	409 771	106 189
Repairs and maintenance	16	691	3 363
Contracted services	17	23 083 901	17 539 891
Grants and subsidies paid	17	365 253	767 910
General expenses	18	1 691 232	1 114 075
Finance costs	19	84 830	126 425
<b>Total expenditure</b>		<b>(32 025 306)</b>	<b>(25 103 586)</b>
<b>Operating surplus for the period before tax</b>		<b>5 127 303</b>	<b>1 517 126</b>
Taxation		-	(44 035)
<b>Surplus for the period</b>		<b>5 127 303</b>	<b>1 473 091</b>

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Statement of Changes in Net Assets

	Notes	Ordinary Shares	Accumulated surplus / (deficit)	Total Net Assets
<b>Balance at 01 July 2015</b>		<b>100</b>	<b>1 237 820</b>	<b>1 237 920</b>
Surplus for the year		-	1 473 091	1 473 091
Total changes		-	1 473 091	1 473 091
<b>Balance at 30 June 2016</b>		<b>100</b>	<b>2 710 910</b>	<b>2 711 010</b>
Correction of prior period errors	31		(102 435)	(102 435)
<b>Restated balance at 30 June 2016</b>				
Surplus for the year		-	5 127 303	5 127 303
Total changes		-	5 024 868	5 024 868
<b>Balance at 30 June 2017</b>		<b>100</b>	<b>7 735 780</b>	<b>7 735 880</b>

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement

	Note(s)	2017 R	2016 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from consumers and other		(777 642)	932 986
Service in kind	33	146 421	136 842
Interest income	11	189 805	108 820
Grants	13	36 619 237	26 200 177
		<u>36 177 821</u>	<u>27 378 825</u>
<b>Payments</b>			
Employee costs	14	(6 639 295)	(5 384 325)
Suppliers		(26 050 889)	(17 441 200)
Finance costs	20	(84 830)	(126 425)
		<u>(32 775 014)</u>	<u>(22 951 950)</u>
<b>Net cash flows from operating activities</b>	<b>21</b>	<b><u>3 402 808</u></b>	<b><u>4 426 874</u></b>
<b>Cash flows from investing activities</b>			
Payment for property plant and equipment		(6 439 116)	(326 924)
<b>Net cash flows used in investing activities</b>	<b>7</b>	<b><u>(6 439 116)</u></b>	<b><u>(326 924)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		<b>(3 036 308)</b>	<b>4 099 950</b>
Cash and cash equivalents at the beginning of the year	5	5 208 269	1 108 319
<b>Cash and cash equivalents at the end of the year</b>		<b><u>2 171 964</u></b>	<b><u>5 208 269</u></b>



Umhlosinga Development Agency SOC Limited  
(Registration No.  
2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

### Statement of Comparison of Budget and Actual Amounts

	Approved budget	Adjustments	Reference	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Performance</b>							
<b>Revenue</b>							
<b>Grants</b>							
DOE	24 884 608	(0)			24 884 608	23 197 440	(1 687 168) IS 1
COGTA	-	11 500 000	IS 15		11 500 000	-	(11 500 000) IS 2
DC 27	5 558 077	-			5 558 077	5 558 077	- IS 3
EDTEA		6 000 000	IS 16		6 000 000	902 657	(5 097 343) IS 4
		-					
<b>Other Income</b>							
Interest on investment	78 827	49 820			128 647	189 806	61 158 IS 5
Landing Fees	145 385	(43 695)			101 690	88 811	(12 879) IS 6
Other Income	47 543	(35 210)			12 333	108 333	96 000 IS 7

	30 714 440	17 470 915		48 185 356	30 045 123	(18 140 232)	
<b>Expenditure</b>							
Employee related costs	7 211 866	304 405		6 907 461	6 229 524	677 937	IS 8
Depreciation and amortisation expense	200 000	-		200 000	160 104	39 896	IS 9
Repairs and maintenance	50 000	-		50 000	691	49 309	IS 10
Contracted services	22 272 617	(16 925 000)	IS 17	39 197 617	23 083 901	16 113 716	IS 11
Grants and subsidies paid	-	-		-	365 253	(365 253)	IS 12
General expenses	1 895 144	(412 300)		2 307 444	1 691 232	616 212	IS 13
Finance costs	-	-		-	84 830	(84 830)	IS 14
	31 629 627	(17 032 895)		48 662 522	31 615 534	17 046 988	

## Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

### Statement of Comparison of Budget and Actual Amounts

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#### Budget and Actual amount variances

Reference	Reason for variance
IS 1	The variance is due to the fact that not all schools in the district were supplied with fruits and vegetables on a weekly basis and therefore not all budgeted revenue could be recognised.
IS 2	The variance is due to failure to transfer the grant by the Department of Cooperative Governance and Traditional Affairs on the grounds that the company was registered as a proprietary limited instead of state owned company limited, at the time.
IS 3	Parent municipality has met the obligation for the current year.
IS 4	The variance is the result of under spending in grant funded projects and therefore revenue could not be recognised due to conditions not being met.
IS 5	The variance is due to the increase in surplus funds available for investments during the year.
IS 6	The variance is due to less than anticipated flight landings at the Mkhuze Regional Airport.
IS 7	The positive variance is due to a donation received from Trade and Investment KwaZulu natal which was not planned.
IS 8	These increases are in line with inflation rate and spending of the company.
IS 9	The variance in depreciation is due to property plant and equipment that was not purchased as anticipated.
IS 10	These increases are in line with inflation rate and spending of the company.
IS 11	The variance is due to not delivery in all schools in the district being supplied with fruits and vegetables on a weekly basis and the underspending on a grant from the Department of Cooperative Governance and Traditional Affairs which had not been transferred to the company by year end.
IS 12	The variance is due to project operational expenditure which were budgeted in the previous years for conditional grant.
IS 13	The variance is due to savings made on expenses.
IS 14	The variance is due to interest on overdue account for SARS and Auditor General accounts which were not anticipated.

#### Approved Budget and Adjusted Budget amount variances

IS 15	The variance is due to confirmation of grant funding received from the KwaZulu Natal Department of Cooperative Governance and Traditional Affairs after the budget was approved by the board of directors.
IS 16	The variance is due to confirmation of grant funding received the KwaZulu Natal Department of Economic Development, Tourism and Environmental Affairs after the budget was approved by the board of directors.
IS 17	The variance is due to confirmation of grant funding received from both the KwaZulu Natal Department of Cooperative Governance and Traditional Affairs and the of Economic Development, Tourism and Environmental Affairs after the budget was approved by the Board of Directors.

# Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act No. 56 of 2003 and the requirements of the Companies Act No.71 of 2008.

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

#### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

#### **1.1.1 Provisions**

Management determined an estimate for provisions raised based on the information available. Additional disclosure of these estimates of provisions is included in note 10.

#### **1.1.2 Useful lives of property, plant, equipment**

As described in accounting policies 1.6 the agency depreciates its property, plant and equipment over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets become available for use. The useful lives and residual values of the assets are based on industry knowledge and are reviewed annually.

#### **1.1.3 Revenue recognition**

Accounting policy 1.9 on Revenue from Exchange Transactions and accounting policy 1.10 on Revenue from Non - Exchange Transactions describes the conditions under which revenue is recorded by the management of the agency.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 Revenue from Exchange Transactions and GRAP 23 Revenue from Non Exchange Transactions and in particular, whether the service has been rendered. The management of the agency is satisfied that recognition of the revenue in the current year is appropriate.

#### **1.1.4 Income tax**

As a registered company the agency is registered for income tax. However due to the entity being a municipal entity it is exempt for paying income tax on grant income.

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.1.5 Effective interest rate

The entity uses an appropriate interest rate, taking into account guidance provided in the standards, and applying professional judgement to the specific circumstances, to discount future cash flows. The entity used the following in arriving at the effective interest rate used:

Nedbank Limited which yields monthly interest of 5.25% per annum.

### 1.2 New standards and interpretations

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of a change in policy. In such cases, the agency shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

**The following new GRAP standards have been issued but are not yet effective as the minister has not signed the effective date. Furthermore, that UMDA has not early adopted.**

GRAP 32 - Service concession arrangements: Grantor

This standard of GRAP is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity. A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time and the operator is compensated for its services over the period of the service concession arrangement. Although unlikely at this stage, the standard is only expected to have an impact on the agency in the event of any future arrangements of this nature.

GRAP 108 - Statutory receivables

This standard deals with the prescribed accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables and the effect thereof.

GRAP 109 - Accounting by principals and agents

This standard deals with the prescribed accounting requirements for transactions in a principal and agent relationship.

### 1.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

---

### 1.3 Financial instruments (Continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the agency have transferred its right to receive cash flows from the asset. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

- > cash;
- > a contractual right to:



# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

---

### 1.3 Financial instruments (Continued)

The agency has the following types of financial liabilities (classes and category) as reflected on the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grant	Financial liability measured at amortised cost

#### Initial measurement of financial assets and financial liabilities

The agency measures a financial asset and financial liability initially at its fair value that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs are added to financial instruments carried at amortised cost or cost.

#### Subsequent measurement of financial assets and financial liabilities

The agency measures all financial assets and financial liabilities after initial recognition using the following category:

- > Financial instruments at amortised cost.

#### Impairment and uncollectibility of financial assets

The agency assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting the allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

## **1.4 Employee benefits**

### **Short-term employee benefits**

Short term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses.

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.4 Employee benefits (Continued)

#### Post-employment benefits

The entity provides post-employment benefits for its officials. These benefits are provided as either defined contribution plans or defined benefit plans. The entity identifies as defined contribution plans any post-employment plan in terms of which it has no obligation to make further contributions to the plan over and above the monthly contributions payable on behalf of employees (for example in the event of a funding shortfall). Any other plans are considered to be defined benefit plans.

#### Defined contribution plans

Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

#### Defined benefit plans

Pursuant to the entity's obligation to fund the post-employment benefits provided through a defined benefit plan, the entity recognises a defined benefit obligation or asset with reference to the fund's financial position. To the extent that the future benefits payable under the fund exceeds the value assets held to finance those benefits, the entity recognises as defined benefit obligation. To the extent that the value of plan assets exceeds the future benefits payable by the fund the entity recognises as defined benefit asset. Plan assets are assets that are held by long-term employee benefit funds or qualifying insurance policies. Plan assets are not available to the creditors of the entity nor can they be paid directly to the entity.

The plan liabilities are measured at the present value of the future benefits payable. This present value of the plan liabilities is determined through actuarial valuation techniques.

Actuarial valuations are conducted on an annual basis by independent actuaries for each plan.

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

### 1.5 Provisions

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of future outflow of resources. Provisions are derecognised if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

The liability for leave pay is based on the total accrued leave days at year end and is  
shown as  
provision in the Statement of Financial Position.

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

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## Accounting Policies

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### 1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for administrative purposes, and are expected to be used during more than one financial period.

#### *Initial recognition*

The cost of an item of property, plant and equipment is recognised as an asset when:

- > it is probable that future economic benefits or service potential associated with the item will flow to the agency; and
- > the cost of the item can be measured reliably.

Property, plant and equipment is initially recognised at cost on its acquisition date or in the case of assets acquired at nil or nominal consideration the deemed cost, being the fair value of the assets at acquisition date.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the agency. Trade discounts and rebates are deducted in arriving at the cost.

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

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service the asset are recognised in the carrying amount of the related asset if the recognition criteria are met. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by the agency.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

#### *Subsequent measurement*

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic fair value of the subsequent expenditure can be reliably measured.

Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity for future economic benefits associated with the asset.

Where the agency replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

### 1.6 Property, plant and equipment (Continued)

Subsequent measurement of all property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. The agency does not recognise in the carrying amount of an item of property, plant and equipment the cost of day to day servicing of the item.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when compensation becomes receivable.

#### *Depreciation*

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the agency. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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

Item	Depreciation Method	Average useful life
<i>Motor Vehicle</i>	Straight line	5 years
<i>Office Equipment</i>	Straight line	5 years
<i>Furniture &amp; Fittings</i>	Straight line	5 years
<i>Computer Equipment</i>	Straight line	5 years
<i>Plant, Machinery &amp; Agricultural Equipment</i>	Straight line	6 years

#### *Derecognition of property, plant and equipment*

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition is included in surplus or deficit when the item is derecognised.

Gains or losses, calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds, are included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

## **1.7 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.



# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

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## Accounting Policies

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### 1.7 Leases (Continued)

#### 1.7.1 Finance leases - The agency as a lessee

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the future minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

The discount rate used in calculating the present value of the future minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of the remaining balance of the liability.

#### 1.7.2 Operating leases - The agency as a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Financial Performance on a straight line basis over the period of the lease.

### 1.8 Taxation

#### Current tax

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities / (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

#### Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rate that applies to the period when the asset is realised or liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of financial date. Deferred tax assets are recognised to the extent that it is probable that taxable benefits will be available against which deductible temporary differences can be utilised on an annual basis.

#### Value added tax

The entity accounts for Value Added Tax on the invoice basis.

### 1.9 Revenue from exchange transactions

An exchange transaction is one in which the agency receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

### **Measurement**

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

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.9 Revenue from exchange transactions (Continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- > the amount of revenue can be measured reliably; and
- > it is probable that the economic benefits or service potential associated with the transaction will flow to the agency; and
- > the stage of completion of the transaction at the reporting date can be measured reliably; and
- > the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

#### Tender deposits

Income from tender deposits are recognised as income when they are received.

#### Finance income

Finance income earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

### 1.10 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an agency, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the agency can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an agency either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting agency.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Government grants are recognised as revenue when :

- > it is probable that the economic benefits or service potential associated with the transaction will flow to the agency;
- > the amount of the revenue can be measured reliably; and
- > to the extent that there has been compliance with any conditions associated with the grant.

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.10 Revenue from non-exchange transactions (Continued)

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the agency has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Revenue from public contributions is recognised when all conditions associated with the contribution has been met or where the contribution is to finance property plant and equipment, when such items are brought into use. Where public contributions have been received but the agency has not met the conditions, a liability is recognised.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the agency.

When, as a result of a non-exchange transaction, the agency recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### 1.11 Budget information

Municipal entities are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by Municipal entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.12 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, agency or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (No. 56 of 2003). All unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.13 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.14 Irregular expenditure

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

### 1.15 Commitments

Items are classified as commitments where the agency commits itself to future transactions that will result in the future outflow of resources. Project commitments are not recognised in the statement of Financial Position as a liability but are included in the disclosure note 25, for approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.

### 1.16 Related parties

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

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed. The agency applies GRAP 25 for related parties.

### 1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.18 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

### 1.19 Going concern assumption

These annual financial statements have been prepared based on the expectation that the agency will continue to operate as a going concern for at least the next 12 months.

### 1.20 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- > those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- > those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The agency will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.



# Umhlosinga Development Agency (Proprietary) Limited

(Registration No.

2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.20 Events after reporting date (Continued)

The agency will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.21 Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

## 2 New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The agency has not applied the following standards and interpretations, which have been published and are mandatory for the agency's accounting periods beginning on or after 01 July 2016 or later periods:

Standard/ Interpretation:	Years beginning on or after	Expected impact:
> GRAP 32: Service Concession Arrangements: Grantor	No effective date has been determined by the Minister of Finance.	Although unlikely at this stage, the standard is only expected to have an impact on the agency in the event of any future such arrangements.
> GRAP 108: Statutory Receivables	No effective date has been determined by the Minister of Finance.	No impact is foreseeable currently.
> IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	No effective date has been determined by the Minister of Finance.	Although unlikely at this stage, the standard is only expected to have an impact on the agency in the event of any future such arrangements.
> GRAP 109: Accounting by Principals and Agents	No effective date has been determined by the Minister of Finance.	No significant impact is currently expected

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>3 Trade and other receivable from exchange transactions</b>		
<b>Gross balances</b>		
Department of Education	7 933 061	7 348 486
	<b>7 933 061</b>	<b>7 348 486</b>
<b>Provision for Doubtful Debts</b>		
Department of Education	-	-
	-	-
<b>Net Balance</b>		
Department of Education	7 933 061	7 348 486
	<b>7 933 061</b>	<b>7 348 486</b>
<b>Summary of Debtors by Customer Classification</b>		
<u>Department of Education</u>		
Current (0 – 30 days)	2 840 280	2 443 874
31 - 60 Days	2 334 030	2 460 461
61 - 90 Days	530 929	2 444 151
91 - 120 Days	2 227 823	-
121 + Days	-	-
Less: Allowance for impairment	-	-
	<b>7 933 061</b>	<b>7 348 486</b>
Outstanding amount that is older than 91 days is fully recoverable from the department based on historical evidence.		
<b>4 Trade and other receivables from non-exchange transactions</b>		
<b>Gross balances</b>		
Umkhanyakude District Municipality	5 030 158	5 030 158
	<b>5 030 158</b>	<b>5 030 158</b>
<b>Provision for Doubtful Debts</b>		
Umkhanyakude District Municipality	-	-
	-	-
<b>Net Balance</b>		
Umkhanyakude District Municipality	5 030 158	5 030 158
	<b>5 030 158</b>	<b>5 030 158</b>

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>4</b>		
<b>Trade and other receivables from non-exchange transactions (Continued)</b>		
<b>Summary of Debtors by Customer Classification</b>		
<u>Umkhanyakude District Municipality</u>		
Current (0 – 30 days)	-	-
31 - 60 Days	-	-
61 - 90 Days	-	-
91 - 120 Days	-	-
121 + Days	5 030 158	5 030 158
Less: Allowance for impairment	-	-
	<b>5 030 158</b>	<b>5 030 158</b>
Outstanding amount that is older than 91 days is fully recoverable from the department based on historical evidence.		
<b>5</b>		
<b>Cash and cash equivalents</b>		
Cash and cash equivalents consist of the following:		
Cash on hand	1 005	961
Cash at bank : Primary Bank account	2 163 794	200 528
Call investments : 49865324 & 36990525	7 163	5 006 781
	<b>2 171 963</b>	<b>5 208 269</b>
The entity has the travel card with account number 5526 7600 0018 5838		
The entity has the following bank accounts: -		
<b>Bank statement balances</b>		
- Primary Bank : Richards Bay Account number 1029736839	2 163 794	200 528
- Investment call accounts Account number 49865324 & 36990525	7 163	5 006 781
	<b>2 170 958</b>	<b>5 207 308</b>
<b>6</b>		
<b>VAT Receivable</b>		
VAT Receivable	903 935	513 725

## Umhlosinga Development Agency (Proprietary) Limited

(Registration No. 2004/016608/07)

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

#### 7 Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Vehicles	414 618	(325 030)	89 588	414 618	(231 970)	182 648
Capital work in progress (Infrastructure Projects)	6 651 555	-	6 651 555	325 790	-	325 790
Furniture and fittings	106 018	(43 046)	62 972	69 738	(26 698)	43 040
Plant, machinery and equipment	223 554	(184 684)	38 870	214 455	(148 655)	65 800
Computer equipment	78 752	(25 431)	53 321	10 779	(10 765)	15
	<b>7 474 496</b>	<b>(578 191)</b>	<b>6 896 305</b>	<b>1 035 380</b>	<b>(418 088)</b>	<b>617 292</b>

**Reconciliation of property, plant and equipment - 2017**

	<b>Carrying Value Opening Balance</b>	<b>Additions</b>	<b>Depreciation</b>	<b>Total</b>
Vehicles	182 648	-	(93 060)	89 588
Capital work in progress (Infrastructure Projects)	325 790	6 325 765	-	6 651 555
Furniture and fittings	43 038	36 280	(16 348)	62 970
Plant, machinery and equipment	65 800	9 099	(36 029)	38 870
Computer equipment	15	67 973	(14 666)	53 321
	<b>617 291</b>	<b>6 439 116</b>	<b>(160 104)</b>	<b>6 896 305</b>

## Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

#### 7 Property, plant and equipment (Continued)

##### Reconciliation of property, plant and equipment - 2016

	Carrying Value Opening Balance	Additions	Depreciation	Total
Vehicles	295 358	-	(112 710)	182 648
Capital work in progress (Infrastructure Projects)	-	325 790	-	325 790
Furniture and fittings	57 577	1 134	(15 673)	43 038
Plant, machinery and equipment	101 550	-	(35 750)	65 800
Computer equipment	3 479	-	(3 464)	15
	<b>457 964</b>	<b>326 924</b>	<b>(167 597)</b>	<b>617 291</b>

A register containing the information required by section 96 (2) (b) of the Municipal Finance Management Act (No. 56 of 2003) is available for inspection at the registered office of the entity.

No assets have been pledged as security nor have any restrictions been placed on any assets under the control of the entity.

Other information	2017 R	2016 R
Carrying value of idle property, plant and equipment	-	-
Gross carrying amounts of depreciated property, plant and equipment still in use.	384 620	108 589
Property, plant and equipment retired from active use, but not classified as held for sale	-	-
	<b>384 620</b>	<b>108 589</b>

# Umhloosinga Development Agency SOC Limited

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017	2016
	R	R
<b>8 Trade and other payables from exchange transactions</b>		
Trade creditors	6 496 761	5 496 383
Tax payable	-	44 035
Cash at bank : Travel card 5526 7600 0018 5838	-	-
	<b>6 496 761</b>	<b>5 540 418</b>
<b>9 Unspent conditional grants and receipts</b>		<b>Restated</b>
Ndumo Market Stalls : COGTA	277 310	2 992 861
Mkhuze Regeneration Framework	309 096	446 289
Mkhuze Market Stalls	116 280	400 500
IDC Grant	700 135	700 873
National Treasury : ILO	212 173	212 173
MTN Grant	515 703	515 703
Mkhuze Fencing and Runaway grant : EDTEA	6 289 012	5 015 037
	<b>8 419 710</b>	<b>10 283 437</b>



**10 Provision for leave**

Opening Balance	183 065	135 800
Provisions Raised	100 007	47 265
Closing Balance	<b>283 072</b>	<b>183 065</b>

**11 Interest earned - external investments**

Interest earned by bank account	<b>189 805</b>	<b>108 820</b>
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**12 Other income**

Airport Fees	69 513	118 948
Tender monies	27 632	31 491
Donation : TIKZN	100 000	-
Sundry Income	-	24 433
	<b>197 144</b>	<b>174 873</b>

**13 Government grants & subsidies***Reconciliation of Movement in Grant: Other Government Grants and Subsidies*

Balance unspent at beginning of year	10 283 437	6 158 037
Current year receipts	18 075 653	30 325 577
Conditions met - transferred to revenue	(36 619 237)	(26 200 177)
Conditions still to be met - remain liabilities	<b>8 419 710</b>	<b>10 283 437</b>

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017	2016
	R	R
		Restated
<b>13 Government grants &amp; subsidies (Continues)</b>		
<b>13.1 Ndumo Market Stalls: COGTA</b>		
Balance unspent at beginning of year	2 992 861	-
Current year receipts	-	3 000 000
Conditions met - transferred to revenue	(2 715 551)	(7 139)
Conditions still to be met - remain liabilities	<u>277 310</u>	<u>2 992 861</u>
<b>13.2 Mkhuze Regeneration Framework</b>		
Balance unspent at beginning of year	446 289	-
Current year receipts	-	1 029 288
Conditions met - transferred to revenue	(137 193)	(582 999)
Conditions still to be met - remain liabilities	<u>309 096</u>	<u>446 289</u>

**13.3 Mkhuze Market Stalls**

Balance unspent at beginning of year	400 500	-
Current year receipts	-	700 000
Conditions met - transferred to revenue	(284 220)	(299 500)
Conditions still to be met - remain liabilities	<u>116 280</u>	<u>400 500</u>

**13.4 IDC Grant**

Balance unspent at beginning of year	700 873	700 873
Current year receipts	-	-
Conditions met - transferred to revenue	(738)	-
Conditions still to be met - remain liabilities	<u>700 135</u>	<u>700 873</u>

**13.5 National Treasury : ILO**

Balance unspent at beginning of year	212 173	212 173
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - remain liabilities	<u>212 173</u>	<u>212 173</u>

**13.6 MTN Grant**

Balance unspent at beginning of year	515 703	515 703
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - remain liabilities	<u>515 703</u>	<u>515 703</u>

# Umhlosinga Development Agency SOC Limited

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## Notes to the Annual Financial Statements

	2017	2016
	R	R
<b>13 Government grants &amp; subsidies (Continues)</b>		
<b>Mkhuze Fencing and Runaway grant :</b>		
<b>13.7 EDTEA</b>		
Balance unspent at beginning of year	5 015 037	-
Current year receipts	6 000 000	5 461 000
Conditions met - transferred to revenue	(4 726 025)	(445 963)
Conditions still to be met - remain liabilities	<b>6 289 012</b>	<b>5 015 037</b>
 <b>13.8 Umkhanyakude District Municipality Grant</b>		
Balance unspent at beginning of year	-	-
Current year receipts	5 558 077	3 000 000
Conditions met - transferred to revenue	(5 558 077)	(3 000 000)
Conditions still to be met - remain liabilities/ assets	-	-

**13.9 National School Nutrition Programme Grant**

Balance unspent at beginning of year	-	-
Current year receipts	23 197 434	21 864 577
Conditions met - transferred to revenue	<u>(23 197 434)</u>	<u>(21 864 577)</u>
Conditions still to be met - remain liabilities	<u>-</u>	<u>-</u>

**14 Employee related costs**

Salaries and Wages	2 759 130	2 296 057
Contributions for UIF, pensions and medical aids	600 707	327 313
<b>Total</b>	<b><u>3 359 837</u></b>	<b><u>2 623 370</u></b>

The agency contribute on accredited medical aid scheme which is Bonitas for all employees, also the agency makes defined contributions to Bokamoso for pension funds. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

**Remuneration of the Chief Executive Officer**

Annual Remuneration	1 054 100	963 000
Travel, motor car, accommodation, subsistence and other allowances	343 470	321 000
Contributions to UIF, Medical and Pension Funds	<u>256 160</u>	<u>239 445</u>
<b>Total</b>	<b><u>1 653 730</u></b>	<b><u>1 523 445</u></b>

## Umhlosinga Development Agency SOC Limited

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Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017	2016
	R	R
<b>14 Employee related costs (Continued)</b>		
<b>Remuneration of the Chief Finance Officer</b>		
Annual Remuneration	425	250
Travel, motor car, accommodation, subsistence and other allowances	257 603	240 750
Contributions to UIF, Medical and Pension Funds	179 930	168 321
<b>Total</b>	<b>1 215 957</b>	<b>1 131 321</b>
<b>15 Directors Emoluments</b>		
Mr. RP Tembe	145 906	8 723
Mr. SL Gumbi	92 233	39 268
Mr. ZJ Ndwandwe	92 382	30 260
Mr. S Nyawo	-	-
Mr. MW Thango	79 249	27 938
<b>Total</b>	<b>409 771</b>	<b>106 189</b>

Fees and travel costs as non-executive directors. Mr. S Nyawo has not been paid because he volunteers his time to the agency.

**16 Repairs and maintenance**

Repairs and maintenance for the year	<u>691</u>	<u>3 363</u>
	<b><u>691</u></b>	<b><u>3 363</u></b>

**17 Contracted services**

Contracted services for School nutrition programme	<u>23 083 901</u>	<u>17 539 891</u>
	<b><u>23 083 901</u></b>	<b><u>17 539 891</u></b>

**18 Grants and subsidies paid**

Grants and subsidies paid	<u>365 253</u>	<u>767 910</u>
	<b><u>365 253</u></b>	<b><u>767 910</u></b>

**19 General expenses**

Advertising	318 591	10 784
Accounting /Admin fees	24 221	23 277
External Audit fees	415 687	410 877
Bank charges	19 907	15 372
Cleaning	2 985	3 951
Rental for land and building	-	136 842
Conferences and delegations	31 274	10 338
Internal audit and audit committee fees	197 481	227 099
Internet fees/ Consumables	65 045	15 992
Electricity and Water	166 765	-
Fuel and oil	81	732
Insurance	31 933	37 612
Postage	399	661

## Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017	2016
	R	R
<b>19 General expenses (Continued)</b>		
Printing and stationery	21 512	15 245
Professional fees	76 968	49 651
Rental of office equipment	78 353	64 473
Security costs	4 703	4 942
Telephone cost	33 784	10 724
Training	50 526	-
Travel and subsistence - Local	144 210	70 638
Uniforms & overalls	1 322	-
Other	5 486	4 864
	<b>1 691 232</b>	<b>1 114 075</b>
<b>20 Finance Costs</b>		
Trade and other payable	84 830	126 425
	<b>84 830</b>	<b>126 425</b>



**21 Cash generated from operations**

Surplus / (deficit) for the year	5 127 303	1 473 091
<b>Adjustments for:</b>		
Depreciation	160 104	167 597
Movement in provision	100 007	47 265
<b>Operating surplus / (deficit) before changes in working capital:</b>	<b>5 387 413</b>	<b>1 687 953</b>
<b>Changes in working capital:</b>		
(Increase) / Decrease in trade and other receivables	(584 578)	969 932
(Increase) / Decrease in VAT receivable	(390 210)	(211 819)
Increase / (Decrease) in Tax Payable	(44 035)	44 035
Increase / (Decrease) in unspent conditional grants and receipts	(1 863 727)	4 125 399
Increase / Decrease in trade and other payables	897 944	(2 188 624)
	<b>3 402 809</b>	<b>4 426 874</b>

**22 Related parties**

**Related party relationship**

Umhlosinga Development Agency is a subsidiary wholly owned by uMkhanyakude District Municipality to spearhead the local economic development within the district.

# Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017	2016
	R	R

### 22 Related parties (Continued)

#### Related party transactions

##### *Income received from related parties*

Grant received from Umkhanyakude District Municipality	5 558 077	3 000 000
Grant received from Department of Education (KZN)	22 792 858	22 834 509
Grant received from Department of KZN Economic Development & Tourism	6 000 000	5 461 000
	<b>34 350 935</b>	<b>31 295 509</b>
Approved budget for Umkhanyakude District Municipality	5 558 077	3 000 000

#### Related party balances

##### *Balances outstanding from related parties*

Transfer outstanding from Umkhanyakude District Municipality	5 030 158	5 030 158
Transfer outstanding from Department of Education (KZN)	7 933 061	7 348 486
	<b>12 963 219</b>	<b>12 378 644</b>

Directors emoluments are disclosed in note 15.

## 23 Unauthorised, Fruitless and Wasteful and Irregular expenditure

<b>Unauthorised expenditure</b>	<b>-</b>	<b>-</b>

### Fruitless and Wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance -	126 425	-
Fruitless and wasteful expenditure current year	84 830	126 425
Written off by Board	-	-
Fruitless and wasteful expenditure awaiting condonement	<b>211 255</b>	<b>126 425</b>

Fruitless and Wasteful expenditure relates to South African Revenue Services and Auditor General penalty, interest on overdue account due to late payments.

### Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	6 098 888	7 509 148
Irregular expenditure current year	213 636	249 092
Written off by Board	-	(1 659 352)
Irregular expenditure awaiting condonement	<b>6 312 524</b>	<b>6 098 888</b>

## Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

2017	2016
R	R

#### Irregular expenditure (Continues)

Incident	Disciplinary steps / Criminal proceedings	Amount
Expenditure incurred as result non-compliance with SCM (register available)	Has been investigated by the board awaiting for the parent municipality to write off.	536 476
Awards made to the persons in the service state	No further procurement be made to this suppliers, awaiting for the board write off.	49 841
Expenditure incurred as result non-compliance with SCM (register available)	Waiting for the board still to investigated expenditure. Committee has been constituted.	5 726 207
		<b>6 312 524</b>

#### 24 Taxation

Normal income tax	-	44 035
	-	<b>44 035</b>

The was no normal income tax provided for 2016/17 financial year,since income was less than expenses

## 25 Additional disclosure in terms of Municipal Finance Management Act

### Audit fees (Auditor General)

Opening balance	34 753	40 190
Current year audit fee	415 687	637 976
Amount paid - current year	<u>(477 601)</u>	<u>(643 413)</u>
Balance unpaid (included in receivables/ payables)	<u><b>(27 162)</b></u>	<u><b>34 753</b></u>

The balance unpaid represents invoices for audit fees that were not sent to UMDA on timeously.

### PAYE and UIF

Opening balance	710 547	116 818
Current year payroll deductions	1 188 046	977 843
Amount paid - current year	<u>(2 218 936)</u>	<u>(267 296)</u>
Amount paid - previous years	<u>267 296</u>	<u>(116 818)</u>
	<u><b>(53 047)</b></u>	<u><b>710 547</b></u>

The balance represents PAYE, SDL and UIF deducted from the 30 June 2017 payroll. These amounts were paid during 31 July 2017. The current expense was not paid over due to the delay on operational grant transfer from the parent municipality.

### Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions	1 483 555	1 313 969
Amount paid - current year	<u>(1 483 555)</u>	<u>(1 313 969)</u>
	<u>-</u>	<u>-</u>

# Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017	2016
	R	R
<b>26 Additional disclosure in terms of Municipal Finance Management Act (Continued)</b>		
<b>Value added tax</b>		
Vat Receivable	903 935	513 725
VAT input receivables and VAT output payables are shown in note 6. All VAT returns have been submitted by the due date throughout the year.		
<b>Non-Compliance with Chapter 11 of the Municipal Finance Management Act</b>		
The entity has an approved a supply chain management policy all deviation is recorded on the deviation register. There was one major supplier (Inomusa Suppliers Trading Enterprise (PTY) Ltd) where a deviation was recorded for the transportation and procuring of vegetables and fruits for the school's nutrition programme.		
	-	14 998 954
<b>Material Losses</b>		
No material losses were recorded.		

## Project commitments

### *Commitments in respect of capital expenditure*

Amounts budgeted and committed

Airport establishment	-	4 000 000
School nutrition project	10 629 754	22 000 000
	<b>10 629 754</b>	<b>26 000 000</b>

This expenditure will be financed from:

Department of Economic Development, Tourism and Environmental Affairs	-	4 000 000
Department of Education	10 629 754	22 000 000
	<b>10 629 754</b>	<b>26 000 000</b>

### *Operating leases - as lessee (expense)*

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Minimum lease payments due

- within one year	48 903	48 903
- in second to fifth year inclusive	48 903	48 903
	<b>97 806</b>	<b>97 806</b>

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the agency for photocopying machine. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

# Umhlosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 28 Risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns and benefits for all stakeholders, while delivering sustainable services and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of cash and cash equivalents disclosed in note 3 and equity as disclosed in the statement of financial position.

Due to the largely non-trading nature of activities and the way in which they are financed, municipal entities are not exposed to the degree of financial risk faced by business entities. The entity's financial services function monitors and manages the financial risks relating to the operation of the entity. These risks include credit risk and liquidity risk.

#### Liquidity risk

Liquidity risk refers to the ability of an entity to meet its obligations associated with financial liabilities. The entity's liquidity risk pertains to whether funds are available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit obligations.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The liquidity ratio is outlined below:

Current Assets	16 039 118	18 100 638
Current Liabilities	15 199 543	16 006 920
Liquidity ratio	1,06:1	1,13 : 1



### Interest rate risk

The entity limits its exposure to interest rate fluctuations by only dealing with well-established institutions and opting for fixed interest rates rather than variable rates.

### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Debtors comprise of mainly outstanding invoices from National School Nutrition Programme, outstanding transfer from parent municipality and former staff debt. Ongoing evaluations are performed on the financial condition of these debtors and have been presented in these financial statements net of a provision for impairment. In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by demand for payment or which ever procedure is applicable in terms of board of directors' credit control and debt collection system.

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

#### Financial instrument

Investments	7 163	5 006 781
Cash and cash equivalents	2 164 800	201 488
Accounts receivable from exchange and non-exchange transaction	12 963 219	12 378 644

# Umhloosinga Development Agency SOC Limited

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

		2017	2016
		R	R
29	<b>Going concern</b>		
	We draw attention to the fact that at 30 June 2017, the entity had accumulated surplus of R7 735 780 and that the entity's total assets exceed its total liabilities by R7 735 780.		
	The annual financial statements have been prepared based on 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, dependant on the receiving of grant allocations.		
30	<b>Events after the reporting date</b>		
	No events after the reporting that has been recorded between the date of the financial year end and the date of submission which will have any material effect on the presentation made.		
31	<b>Prior period errors</b>		
31.1	<b>Expenses</b>		
	Expenses amounting to R 194 583.91 invoice were not recorded in the correct accounting period, services were rendered in the 2014/15 financial year also the VAT was accounted in incorrect period R25 096.92.		

Furthermore, during the year we receive the credit note amounting to R92 000 for the expenses incurred in the 2015/16 financial year in relation to airport establishment.

The effect of the correction of an error results is as follows:

**Statement of Financial Position**

Trade and other payables from exchange		102 435
		-
Accumulated surplus	-	102 435

# Umhloosinga Development Agency SOC Limited

(Registration No. 2004/016608/30)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017	2016
	R	R
<b>32 Income Tax paid / (Refund )</b>		
Balance at the beginning of the year	44 035	-
Current tax for the year recognised in surplus / (deficit)	-	(44 035)
Balance at the end of the year	-	44 035
	<b>(44 035)</b>	<b>-</b>
<b>33 Share capital / contributed capital</b>		
<b>Authorised</b>		
1000 Ordinary shares of R1 each	1 000	1 000
<b>Issued</b>		
100 Ordinary shares R1 each	100	100
<b>34 Service in Kind</b>		
<b>34.1 Rental Income (Service in Kind)</b>	146 421	136 842

The entity receives service in-kind from the parent municipality. UMkhanyakude district municipality has provided Umhloosinga Development Agency with the free use of land and building Water consumption are also being paid by the parent municipality but considered to insignificant as amount paid to date is R6 134.56 for 2016/17 and R2 807.22 for 2015/16 respectively.

Electricity consumption also being paid by the parent municipality but has been considered as insignificant; UMDA use electricity for light and connection to our computer equipment. Umhloosinga development agency has a free use of land and building belonging to UMkhanyakude district municipality, further to this; water and electricity used by the entity is being paid for by UMkhanyakude district municipality, these are effectively classified as service in kind in terms of GRAP 23. The fair value of free use for land and buildings has been estimated and recognised in terms of GRAP 23. Free use of water and electricity is not considered by the municipality to be significant to the operations of the entity and is therefore not recognised.

#### **34.2 Property Plant and Equipment (Service in Kind)**

The asset's useful lives have been reviewed at the reporting date and our expectations from the previous estimates have not changed. The parent municipality has provided PPE to the carrying value of R 6 296.30 to be used by the entity.

# CHAPTER 6

## AUDITOR GENERAL FINDINGS

Auditor-General of South Africa

# Umhloosinga Development Agency Soc Ltd - audit report 2016-17

# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the Umhlosinga Development Agency Soc Ltd.

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Umhlosinga Development Agency Soc Ltd set out on pages 68 to 137, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umhlosinga Development Agency Soc Ltd as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.



## **Other matter**

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

## **Unaudited disclosure notes**

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

## **Responsibilities of the accounting officer for the financial statements**

8. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the financial statements, the accounting officer is responsible for assessing the Umhloosinga Development Agency's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipal entity or cease operations, or there is no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

10. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipal entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the local economic development priority on pages 45-52, presented in the annual performance report of the municipal entity for the year ended 30 June 2017.
15. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected development priority.

## **Other matters**

17. I draw attention to the matters below.

### **Achievement of planned targets**

18. The annual performance report on pages 42 to 58; includes information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets.

### **Adjustment of material misstatements**

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of local economic development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

20. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipal entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
21. The material findings on compliance with specific matters in key legislations are as follows:

### **Expenditure management**

22. Money owed by the municipal entity was not always paid within 30 days as required by section 99(2) (b) of the MFMA.

23. Effective steps were not taken to prevent irregular expenditure amounting to R213 636 as disclosed in note 23 to the annual financial statements, as required by section 95(d) of the MFMA. The majority of the irregular expenditure was caused by awards made without following the SCM procedures. Irregular expenditure amounting to R 71 490 was incurred due to procuring goods from Game stores without following the SCM processes in the current year.
24. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R84 830, as disclosed in note 23 to the annual financial statements, in contravention of section 95(d) of the MFMA.

### Other information

25. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act, 2008 (Act No. 71 of 2008). The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported in the auditor's report.
26. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
27. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
28. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. I have nothing to report in this regard.

## Internal control deficiencies

29. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.
30. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## Leadership

31. Compliance with laws and regulations was not effectively monitored throughout the financial year. In this regard, the accounting authority did not ensure the policies and procedures are appropriately implemented to support the achievement of compliance with legislative requirements.

## Financial and Performance management

32. Management did not adequately and regularly review the financial and performance information to ensure that the information is valid, accurate and complete. This was due to management not fully understanding the requirements of the financial and performance reporting frameworks and not fully implementing policies and procedures.

Pietermaritzburg  
30 November 2017

## Section B: Action Plan to Address Audit Queries



### ACTION PLAN ON THE AUDIT REPORT FOR 30 JUNE 2017

DATE ISSUED: 04 DECEMBER 2017

Paragraph No	Finings	Reasons	Action Required	Responsible Official	Due Date	Status as at 04 December 2017
<b><u>Report on the audit of compliance with legislation</u></b>						
<b>Compliance with laws and regulations</b>						
<b><u>Expenditure management</u></b>						
22	Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2) (b) of the MFMA	<ul style="list-style-type: none"> <li>- This is due to cash flow challenges and delays in transferring money from the parent municipality.</li> <li>- Also due to non-payment and delays</li> </ul>	<ul style="list-style-type: none"> <li>- Signing of bidding shareholders compact agreement with transfer schedule</li> <li>- Investigate the possibilities of revolving credit as a bridging facility</li> <li>- The entity is implementing strict</li> </ul>	Chief Executive Officer, Mr. Mandla Ntuli	30 June 2018	<ul style="list-style-type: none"> <li>- The accounting officer is in discussion with the district MM whether some revolving or grants be paid in full in the beginning of</li> </ul>

		from the KZN Department of Education.	<p>adherence to policies and procedures</p> <ul style="list-style-type: none"> <li>- The entity will continue implementing internal controls on receiving invoices (Suppliers has been informed that invoices should be submitted only to the designated email address and to the reception)</li> </ul>			<p>the financial year.</p> <ul style="list-style-type: none"> <li>- As invoices are received by the finance officer; they are stamped and monthly reconciliation is prepared by the FO and reviewed by the CFO.</li> </ul>
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Paragraph no.	Findings	Reasons	Action Required	Responsible Officials	Due Date	Status as at 04 Dec. 2017
<b><u>Expenditure management</u></b>						
23	Effective steps were not taken to prevent irregular expenditure amounting to R213 636 as disclosed in note 23 to the annual financial statements, as required by section 95(d) of the MFMA. The majority of the irregular expenditure was caused by awards made without following the SCM procedures. Irregular expenditure amounting to R 71 490 was incurred due to procuring goods from Game stores without following the SCM processes in the current year.	<ul style="list-style-type: none"> <li>- This expenditure incurred relates to agreements which were signed by the previous management</li> <li>- For the purchase of the laptops, management was trying to save costs.</li> </ul>	<ul style="list-style-type: none"> <li>- Start the SCM for acquiring this services</li> <li>- Strict adherence to the SCM Policy has been put in place to avoid irregular expenditure as a result the irregular expenditure has reduced drastically.</li> <li>- This will be regularly monitored.</li> <li>- Quarterly SCM report has been prepared and submitted for review by management to the Audit committee and to Board of directors for oversight.</li> </ul>	Chief Executive Officer, Mr. Mandla Ntuli	30 June 2018	Quarterly SCM report are sent for the MANCO and Board. The board sub-committee has been appointed to deal with irregular expenditure.



Paragraph no	Findings	Reasons	Action Required	Responsible Official	Due Date	Status as at 04 Dec 2017
<b><u>Expenditure management</u></b>						
24	Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R84 830, as disclosed in note 23 to the annual financial statements, in contravention of section 95(d) of the MFMA.	<ul style="list-style-type: none"> <li>- This is due to late payments to auditor general and SARS who then charged interest.</li> <li>- The district municipality did not transfer operational grant on time.</li> </ul>	<ul style="list-style-type: none"> <li>- Signing of bidding shareholders agreement with transfer schedule</li> <li>- Investigate the possibilities of revolving credits as bridging facilities</li> <li>- The entity is implementing strict adherence to policies and procedures</li> <li>- The entity will continue implementing internal controls on receiving invoices (Suppliers has been informed that invoices should be submitted only to the designated email address and to the reception)</li> </ul>	Chief Executive Officer, Mr. Mandla Ntuli	30 June 2018	<ul style="list-style-type: none"> <li>- Quarterly SCM report are sent for the MANCO and Board.</li> <li>- The board subcommittee has been appointed to deal with fruitless and wasteful expenditure.</li> </ul>

Paragraph no	Findings	Reasons	Action Required	Responsible Official	Due Date	Status as at 04 Dec 2017
<b><u>Internal Control:</u></b>						
<b><u>Leadership:</u></b>						
31	Compliance with laws and regulations was not effectively monitored throughout the financial year. In this regard, the accounting authority did not ensure the policies and procedures are appropriately implemented to support the achievement of compliance with legislative requirements	<ul style="list-style-type: none"> <li>- The non-compliance with laws and regulations relates to the above 3 reasons with the same reasons</li> <li>- Company secretary resigned during the financial year.</li> </ul>	<ul style="list-style-type: none"> <li>- The Compliance checklist will be submitted to the board for review on quarterly basis.</li> </ul>	Chief Executive Officer, Mr. Mandla Ntuli	30 June 2018	<ul style="list-style-type: none"> <li>- Board is monitoring compliance laws and regulations with compliance checklist.</li> <li>- Accounting officer is monitoring all quarterly report and signing them; which are also reviewed by the internal auditors.</li> </ul>

Paragraph no.	Findings	Reasons	Action Required	Responsible Officials	Due Date	Status as at 04 Dec. 2017
<b><u>Expenditure management</u></b>						
32	Management did not adequately and regularly review the financial and performance information to ensure that the information is valid, accurate and complete. This was due to management not fully understanding the requirements of the financial and performance reporting frameworks and not fully implementing policies and procedures.	- The internal auditors were appointed late in the year.	- Align the performance target of our internal auditors, audit committee and management to the audit, if there are no findings, the AFS & APR review cost will then be paid.	Chief Executive Officer, Mr. Mandla Ntuli	30 June 2018	<ul style="list-style-type: none"> <li>- Currently the Finance Officer has been trained by the CFO to prepare financial statements on monthly basis.</li> <li>- The internal auditors have been appointment to review the APR &amp; AFS.</li> <li>- The implementation plan is being signed with the internal auditors.</li> </ul>

# APPENDIX 1

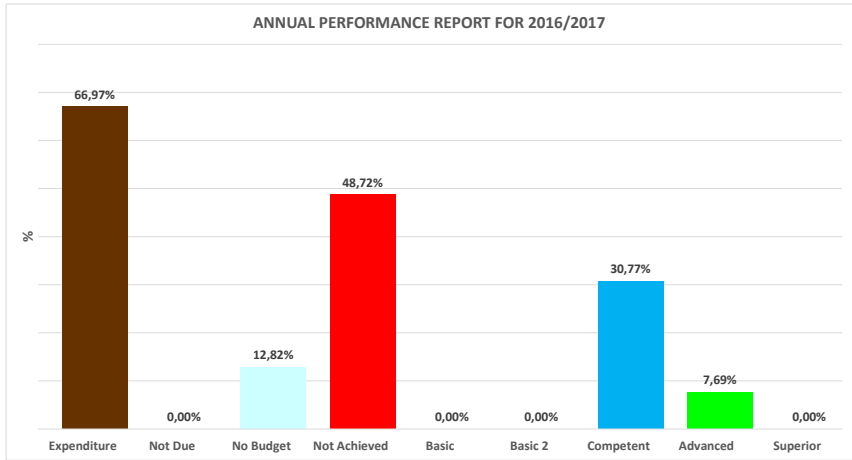
ORGANISATIONAL PERFORMANCE REPORT - 2016/2017

UMKHANYAKUDE DISTRICT MUNICIPALITY																					
ORGANISATIONAL SCORECARD - 2016/2017																					
YEAR OF THE IDP - 3rd GENERATION									1	2	3	4	5 ✓								
KPA	INDEX	GOAL	OBJECTIVE	STRATEGY	KPI NO	KPI	TARGET	UNIT OF MEASURE	BUDGET ALLOCATION		ANNUAL			TARGET 2015-2016		TARGET 2016-2017		COMMENTS	CORRECTIVE MEASURES	RATING	RESPONSIBILITY
									BUDGET	ACTUAL	DEMAND	BASELINE	BACKLOG	PROJECTED	ACTUAL	PROJECTED	ACTUAL				
MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT	A	Performance Management System	AA. To ensure effective Organizational Performance Management System (PMS)	Implementation of PMS	AA 1	Date of signing performance plans and performance agreements	Performance plans and performance agreements signed by 31 July 2016	Date	R 0,00	R 0,00				31-Jul-15	31-Jul-15	31-Jul-16	0	Not all S56 and S57 employees signed Perfomance Agreements and Plans		Not Achieved	Office of the Municipal Manager
		Integrated Development Plan	AB. To ensure effective integrated development planning (IDP)	Implementation of IDP	AB 1	ExCo approved IDP Process and Framework Plan	IDP Process and Framework Plan approved by ExCo by 31 August 2016	Date	R 0,00	R 0,00				31-Aug-15	31-Aug-15	31-Aug-16	31-Aug-16			3	Office of the Municipal Manager
		Human Resources Development	A1. To provide effective and efficient Human Resources Management aimed at achieving a skilled workforce that is responsive to Service delivery and change	Council Adoption of Human Resources Development Strategy	A 1.1	Council adopted HRD Strategy	Council adopted HRD strategy by 30 Sep 2016	Date	R 0,00	R 0,00				Target not set	Target not set	30-Sep-16	27-Mar-17	Target not achieved in the first quarter	Programmes to be monitored monthly in order to detect early if there is a challenge with regards to progress	Not Achieved	Corporate Services
				Council Adoption of Workplace Skills Plan	A 1.2	Council adopted WSP	Council adopted WSP by 30 Nov 2016	Date	R 0,00	R 0,00				31-Mar-16	0	30-Nov-16	0			No Budget	Corporate Services
				Implementation of Work Place Skills Plan (WSP)	A 1.3	Percentage of budget spent on WSP	100% of the budget spent by 30 June 2017	Percentage	R 0,00	R 0,00				100%	100%	100%	0	Budget constraints	Allocation will be made in the new financial year	No Budget	Corporate Services
				Council adoption of Employment Equity Plan	A 1.4	Developed and submitted EE Plan to Council for adoption	Council adopted EE Plan by 31 October 2016	Date	R 0,00	R 0,00				31-Dec-15	0	31-Oct-16	0	Already developed but not yet adopted by Council	To be submitted to Council for adoption during 2017/2018FY	Not Achieved	Corporate Services
		Records Management	A2. To provide an effective and efficient system of managing records for preservation of institutional memory	Implementation of Records Management System	A2.1	Date of implementing Records Mnaagement System	Records Mnaagement System implemented by 31 January 2017	Date	R 0,00	R 0,00				Target not set	Target not set	31-Jan-17	0		Records Management Programme will be implemented in 2017/2018	Not Achieved	Corporate Services
		Information Communication Technology Management	A3. Adherence to evolving technology	Conduct an assessment on provision of ICT services	A3.1	Number of assessments conducted on provision of ICT services	ExCo approved quarterly assessments on provision of ICT services by 30 June 2017	Number	R 2 000 000,00	R 314 470,00				Target not set	Target not set	4 Assessment Reports	3 Assessment Reports	Reports will be generated monthly in 2017/2018		Not Achieved	Corporate Services
		Occupational Health and Safety Management	A4. To ensure adherence to Occupational Health and Safety Act	Conduct Health and Safety Risk Assessments	A4.1	Number of Health and Safety Risk Assessments conducted	4 Health and Safety Risk Assessments conducted by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	4 Assessment Reports	1 Assessment Reports	Incumbent responsible for the function is on meternity leave	Available internal staff members should be skilled so as to perform activities associated with this function	Not Achieved	Corporate Services
		Administrative Support Services Management	A5. To ensure effective and efficient administration	Conduct an assessment on provision of administrative support services	A5.1	Number of assessments conducted on provision of admin services	ExCo approved quarterly assessments on provision of admin services by 30 June 2017	Number	R 19 145 599,00	R 0,00				Target not set	Target not set	4 Assessment Reports	3 Assessment Reports	Reports will be generated monthly in 2017/2018 so as to avoid the problem of outstanding reports		Not Achieved	Corporate Services
		Legal Servicers	A6. To ensure effective and efficient legal services	Conduct an assessment on provision of legal services	A6.1	Number of assessments conducted on provision of legal services	ExCo approved quarterly assessments on provision of legal services by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	4 Assessment Reports	2 Assessment Reports	The incumbent responsible for Legal Services was unavailable to prepare the report as he is no longer working for the Municipality	The Office of the MM will prepare the report and submit it in due course	Not Achieved	Corporate Services
BASIC SERVICE DELIVERY AND INFRASTRUCTURE INVESTMENT	B	High quality infrastructure network	B1. To provide high quality infrastructure network to support improved quality of life and economic growth	Implementation of projects for all households to access basic water services supported by high quality infrastructure	B1.1	Number of households earning less than R1100 per month with access to free basic water	(3000 households that would benefit from stand pipes provided free basic water by 30 June 2017: 10% of backlog)	Number	R 207 522 000,00	R 192 111 549,15	151245 HH	103496 HH	47749	3000 hh	809	3000 hh	4365 hh			4	Technical Services
				Implementation of projects for all households to access basic sanitation services supported by high quality infrastructure	B1.2	Number of households earning less than R1100 per month with access to free basic sanitation	(1400 households that would benefit from VIP toilets provided free basic sanitation by 30 June 2017: 10% of backlog)	Number			151245 HH	85570 HH	65 675	1400 hh	4591	1400 hh	5847			4	Technical Services
				Ensure functional electricity services for Ingwavuma and KwaMxane areas	B1.3	Number of kilowatts distributed to residents	4.2 million KWH distributed by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	4.2KWH	3.95KWH	Illegal connections	Fix lines with illegal connections	Not Achieved	Technical Services
				Planning and implementation of support programmes aimed at improving coverage and quality of infrastructure within the District	B1.4	Number of assessment reports on provision of repairs for water schemes submitted to the Technical Services portfolio committee	ExCo approved quarterly assessment reports developed by 30 June 2017	Number	R 57 025 010,00	R 0,00				Target not set	Target not set	4 Assessment Reports	3 Assessment Reports	O&M Plan not yet available	Draft plan has been developed	Not Achieved	Technical Services
LOCAL ECONOMIC DEVELOPMENT	C	District economic growth and employment opportunities	C1. To expand district economic output and increase quantity and quality of employment opportunities	Optimise the role of the agricultural and forestry sector in district economic growth and employment creation	C1.1	Number of business plans developed to optimise agriculture and forestry	One business plan developed for each sector (Agriculture and Forestry) and submitted to ExCo for approval by 31 Dec 2016	Number	R 0,00	R 0,00				Target not set	Target not set	Agriculture and Forestry Bus Plans	0	Target will be revised in 2017/2018		No Budget	Community, Planning & Economic Development
				Optimise the role of conservation and a diversified tourism sector in District economic growth	C1.2	Date of developing Tourism Business Plan	Tourism business plan developed and submitted to the ExCo for approval by 31 Dec 2016	Date	R 0,00	R 0,00				Target not set	Target not set	Tourism Bus Plan	0	Target will be revised in 2017/2018		No Budget	Community, Planning & Economic Development
				Increase in business skills levels of the district labour force	C1.3	Number of business skills workshops organised	2 workshops organised by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	2	0	Target will be revised in 2017/2018		No Budget	Community, Planning & Economic Development
				Ensure improved quality of employment opportunities and to raise income levels of employed population	C1.4	Number of jobs created	600 Jobs created by 30 June 2017	Number	R 0,00	R 0,00				460 Jobs	460 Jobs	600	640			4	Community, Planning & Economic Development
				Monitoring of UMDA's performance as per the Business Plan for operational budget	C1.5	Number of quarterly performance review sessions held with UMDA	4 quarterly performance review session reports submitted to the ExCo for approval by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	4 Assessment Reports	2 Assessment Reports	Performance of the Agency will be monitored monthly in the next coming financial year		Not Achieved	Community, Planning & Economic Development

KPA	INDEX	GOAL	OBJECTIVE	STRATEGY	KPI NO	KPI	TARGET	UNIT OF MEASURE	BUDGET ALLOCATION		ANNUAL			TARGET 2015-2016		TARGET 2016-2017		COMMENTS	CORRECTIVE MEASURES	RATING	RESPONSIBILITY
									BUDGET	ACTUAL	DEMAND	BASELINE	BACKLOG	PROJECTED	ACTUAL	PROJECTED	ACTUAL				
FINANCIAL VIABILITY AND MANAGEMENT	D	Improve Revenue Collection	D1. To Implement Revenue Collection	Develop and implement cash flow management plans	D 1. 1	Date of developing and implementing cash flow management plans	Cash flow management plans developed and approved by the ExCo by 31 July 2016	Date	R 0,00	R 0,00				Target not set	Target not set	31-Jul-16	31-Jul-16			3	Financial Services
					D 1. 1. 1	Outstanding Service Debtors to Service Revenue Ratio maintained	Outstanding Service Debtors to Service Revenue ratio maintained at less than 0.5 throughout the 2016/2017 FY	Ratio	R 0,00	R 0,00				<0.5	0	<0.5	<0,24	The current service debtors to service revenue ratio is below is the projected ratio. This is due to poor revenue collections.	A revenue enhancement strategy has been prepared and approved by all relevant council structures and is being implemented. KZN CoGTA has also finalised the appointment of a service provider to assist with data cleansing exercise which will in turn assist with ensuring that the municipality is able to issue accounts to correct consumers for collections.	Not Achieved	Financial Services
					D 1. 1. 2	Debt Coverage Ratio maintained	More than 1 Debt coverage Ratio maintained throughout the 2016/2017 FY	Ratio	R 0,00	R 0,00				>1	0	>1	> 0.78	Debt coverage ratio does not meet the required standards. This is due to poor revenue collections.	A revenue enhancement strategy has been prepared and approved by all relevant council structures and is being implemented. KZN CoGTA has also finalised the appointment of a service provider to assist with data cleansing exercise which will in turn assist with ensuring that the municipality is able to issue accounts to correct consumers for collections.	Not Achieved	Financial Services
		Improve Expenditure Management	D2. To improve expenditure management	Develop and implement cash and credit management plans	D 2. 1	Date of developing and implementing cash and credit management plans	Cash and credit management plans developed and approved by the ExCo by 31 July 2016	Date	R 0,00	R 0,00				Target not set	Target not set	31-Jul-16	31-Jul-16			3	Financial Services
					D2.1.1	Cost Coverage Ratio maintained	More than 1 Cost Coverage Ratio maintained throughout the 2015/2016 FY	Ratio	R 0,00	R 0,00				>1	0	>1	>0,86	the municipality is unable to cover the fixed cost with the cash and cash equivalent at hand	A new strategy will be devised in 2017/2018	Not Achieved	Financial Services
					D2.1.2	Percentage of municipality's budget spent on capital projects	45% of municipality's budget spent on capital projects by 30 June 2017	Percentage	R 0,00	R 0,00				Target not set	Target not set	45%	29%		More money needs to be invested in infrastructure using Municipality's budget as opposed to grant funding	Not Achieved	Financial Services
		Improve Financial Management	D3. To Improve Financial Management	Develop a credible budget and report in accordance with the provisions of the MFMA	D 3. 1	Date of adoption of Budget	Council adopted budget by 31 May 2017	Date	R 0,00	R 0,00				Target not set	Target not set	31-May-17	31-May-17			3	Financial Services
		Supply Chain Management Processes	D4. To Effectively Implement Supply Chain Management Regulations	Development of Procurement Plan	D 4. 1	Date of development of a Procurement Plan	Procurement Plan developed and approved by the ExCo by 31 July 2016	Date	R 0,00	R 0,00				Target not set	Target not set	31-Jul-16	31-Jul-16			3	Financial Services
					D 4. 2	Number of performance reports for service providers submitted to the ExCo	ExCo approved quarterly reports on performance of service providers by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	4 Assessment Reports	3 Assessment Reports		This report will ge generated monthly in the next coming financial year	Not Achieved	Financial Services
		GOOD GOVERNANCE AND PUBLIC PARTICIPATION	E	Improve Quality of Life	E1. To improve the quality of lives for people within Umkhanyakude District	Implementation of Special Programmes	E1.1	Number of Special Programmes Implemented	2 Special Programmes Implemented by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	2 Programmes	2 Programmes		
Implementation of Environmental Health Management Programmes	E1.2					Number of Environmental Health Management Programmes Implemented	2 Environmental Health Management Programmes implemented by 30 June 2017	Number	R 426 000,00	R 0,00				Target not set	Target not set	2 Programmes	2 Programmes			3	Community, Planning & Economic Development
Excellence in Governance and Leadership	E2. To ensure excellence in governance and leadership			Implementation of Risk management programmes	E2.1	Date of establishing the Risk Management Committee	Risk Management Committee established by 31 August 2016	Date	R 0,00	R 0,00				Target not set	Target not set	31-Aug-16	0		Risk management will be given attention in 2017/2018 and relevant structures to monitor this programme will be established	Not Achieved	Community, Planning & Economic Development
				Coordination of committees responsible for oversight in the Municipality	E2.2	Number of meetings held by oversight committees	8 oversight committee (Audit Commeeette and MPAC) meetings held by 30 June 2017	Number	R 442 000,00	R 0,00				8 meetings	4 meetings	8 meetings	5 meetings		All oversight committees will be established and will frinction as per the laid down schedule	Not Achieved	Community, Planning & Economic Development
				Regular public participation in municipal businesses	E2.3	Number of public participation meetings held	4 IDP/Budget consultative meetings held by 31 May 2017	Number	R 200 000,00	R 0,00				4 meetings	4 meetings	4 meetings	4 meetings			3	Community, Planning & Economic Development
				Implementation of IGR programmes	E2.4	Number of IGR meetings held	8 IGR meetings (Mayors and MMs forum) held by 30 June 2017	Number	R 0,00	R 0,00				8 meetings	3 meetings	8 meetings	2 meetings		A schedule of meetings will be strictly followed in 2017/2018	Not Achieved	Community, Planning & Economic Development
CROSS CUTTING INTERVENTIONS	F	Integrity and Quality of Physical Environment	F1. To ensure integrity and quality of physical environment underpinned by a coherent spatial development pattern	Maintain and improve the environmental integrity of the district and its resources	F1.1	Number of assessment reports on environmental management submitted to the ExCo	Quarterly assessment reports on support given to LMs submitted to the ExCo by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	4 Assessment Reports	4 Assessment Reports			3	Community, Planning & Economic Development
				Implement a functionally structured spatial development pattern guided by identified nodes and corridors through an effective land use management system	F1.2	Date of Council adoption of reviewed SDF	Reviewed SDF adopted by 31 May 2017	Date	R 0,00	R 0,00				Target not set	Target not set	31-May-17	31-May-17			3	Community, Planning & Economic Development
					F1.3	Number of EXCO Approved Quarterly SPLUMA Implementation Reports	4 SPLUMA implementation assessment reports submitted to Exco by 30 June 2017	Number	R 0,00	R 0,00				Target not set	Target not set	4 Assessment Reports	4 Assessment Reports			3	Community, Planning & Economic Development
		Functional Disaster Management Unit	F2. To ensure functional and responsive Disaster Management Unit	Conduct an assessment on effectiveness of prevention, mitigation and response to Disasters within the District	F2.1	Number of ExCo approved quarterly assessment reports on prevention, mitigation and response to Disasters	ExCo approved quarterly assessment reports on prevention, mitigation and response to Disasters by 30 June 2017	Number	R 576 800,00	R 0,00				Target not set	Target not set	4 Assessment Reports	4 Assessment Reports			3	Community, Planning & Economic Development
TOTAL									R 287 337 409,00	R 192 426 019,15	67%										

ANALYSIS OF PERFORMANCE - PERFORMANCE REPORT - 2016/2017 FY

Rating	Key		%	Number of Targets
Expenditure	Expenditure		66,97%	N/A
N/D	Not Due		0%	0
No Budget	No Budget		13%	5
Not Achieved	Not Achieved		49%	19
1	Basic	Partially Achieved	0%	0
2	Basic 2		0%	0
3	Competent		31%	12
4	Advanced	Target Exceeded	8%	3
5	Superior		0%	0
Total				39



NAME OF OFFICIAL: S. E. BURKHOSHI

SIGNATURE OF OFFICIAL:

DESIGNATION OF OFFICIAL: MUNICIPAL MANAGER

DATE:

31 August 2017