

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the consolidated 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 financial statements and was given unrestricted access to all financial records and related data.

The consolidated 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 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 accounting officer 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the economic entity's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer certify that the remuneration of Councillors and in-kind benefits 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.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the economic entity's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the economic entity's consolidated financial statements. The consolidated financial statements have been examined by the economic entity's external auditors and their report is presented on page 5.

The consolidated financial statements set out on pages 5 to 115, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2016 and were signed on its behalf by:



Mr DD Naidoo
Accounting Officer

Ugu District Municipality

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Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2016.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four (4) times per annum as per its approved terms of reference. During the current year four (4) meetings were held.

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) to (e) of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the economic entity over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the consolidated financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the management of the economic entity during the year under review.

Evaluation of consolidated financial statements

The audit committee has:

- reviewed and discussed the audited consolidated financial statements to be included in the annual report, with the Auditor-General and the accounting officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the consolidated financial statements, and are of the opinion that the audited consolidated financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the economic entity and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date: _____



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Independent Auditor's Report

The independent auditor submits his report for the year ended 30 June 2016.

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Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2016	2015 Restated*	2016	2015 Restated*
Assets					
Current Assets					
Inventories	3	11 524 055	14 426 468	11 524 055	14 426 468
Current portion of long-term receivables	4	11 594	51 855	11 594	51 855
Operating lease asset	5	46 289	28 410	46 289	28 410
Receivables from non-exchange transactions	6	27 131 383	50 960 422	27 115 383	50 504 488
VAT receivable	7	36 117 732	-	36 461 097	-
Receivables from exchange transactions	8	59 351 120	96 261 787	58 696 872	95 058 018
Cash and cash equivalents	9	278 567 023	272 701 623	258 763 006	259 074 427
		412 749 196	434 430 565	392 618 296	419 143 666
Non-Current Assets					
Investment property	10	29 500 000	29 403 251	29 500 000	29 403 251
Property, plant and equipment	11	3 996 395 865	3 829 297 584	3 994 952 987	3 828 589 300
Intangible assets	12	11 504 131	8 980 880	11 460 699	8 933 645
Investments	13	-	-	200	200
Long-term receivables	4	101 365	270 644	101 365	270 644
		4 037 501 361	3 867 952 359	4 036 015 251	3 867 197 040
Total Assets		4 450 250 557	4 302 382 924	4 428 633 547	4 286 340 706
Liabilities					
Current Liabilities					
Current portion of long-term liabilities	14	19 727 697	18 915 505	19 727 697	18 915 505
Finance lease obligation	15	-	3 063 785	-	3 063 785
Operating lease liability	5	108 315	74 616	55 585	50 643
Payables from exchange transactions	16	177 147 533	153 154 831	176 397 203	153 464 565
VAT payable	17	-	498 300	-	855 061
Consumer deposits	18	20 606 607	20 034 005	20 606 607	20 034 005
Unspent conditional grants and receipts	19	8 729 920	21 365 817	8 729 920	21 365 817
Provisions	20	25 715 613	20 268 774	25 157 337	19 761 585
Bank overdraft	9	2 306 145	26 152 189	2 306 145	26 152 189
		254 341 830	263 527 822	252 980 494	263 663 155
Non-Current Liabilities					
Long-term liabilities	14	125 825 541	144 531 365	125 825 541	144 531 365
Retirement benefit liabilities	21	15 571 785	15 250 105	15 571 785	15 250 105
Other long-term employee benefits	22	14 010 102	13 234 057	14 010 102	13 234 057
		155 407 428	173 015 527	155 407 428	173 015 527
Total Liabilities		409 749 258	436 543 349	408 387 922	436 678 682
Net Assets		4 040 501 299	3 865 839 575	4 020 245 625	3 849 662 024
Accumulated surplus		4 040 501 299	3 865 839 575	4 020 245 625	3 849 662 024

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Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2016	2015 Restated*	2016	2015 Restated*
Revenue					
Revenue from exchange transactions					
Service charges	23	316 107 885	295 020 086	316 107 885	295 020 086
Rental of facilities and equipment	24	1 089 006	2 430 265	1 089 006	2 430 265
Other revenue	25	16 629 673	16 964 100	16 097 754	14 980 970
Interest received - investment	26	30 628 193	19 514 892	29 874 150	18 995 968
Total revenue from exchange transactions		364 454 757	333 929 343	363 168 795	331 427 289
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	27	733 381 765	722 408 093	733 381 765	722 408 093
Public contributions and donations	28	4 961 650	4 595 000	-	-
Total revenue from non-exchange transactions		738 343 415	727 003 093	733 381 765	722 408 093
Total revenue		1 102 798 172	1 060 932 436	1 096 550 560	1 053 835 382
Expenditure					
Employee related costs	29	(302 629 306)	(274 944 244)	(294 667 945)	(267 421 308)
Remuneration of councillors	30	(9 543 737)	(9 145 959)	(8 957 246)	(8 689 921)
Depreciation and amortisation	31	(195 107 992)	(195 922 486)	(194 949 604)	(195 765 311)
Impairment loss/ Reversal of impairments	32	(97 093 187)	(161 924 814)	(97 093 187)	(161 924 814)
Finance costs	33	(13 556 116)	(12 812 729)	(13 556 084)	(12 812 707)
Lease rentals on operating lease		(2 799 296)	(2 599 556)	(2 050 086)	(1 877 034)
Debt Impairment	34	(196 710)	(17 799)	(172 017)	-
Repairs and maintenance		(63 151 041)	(52 627 708)	(63 008 980)	(52 560 496)
Bulk purchases	35	(66 091 136)	(52 626 127)	(66 091 136)	(52 626 127)
Contracted services	36	(22 808 384)	(19 968 006)	(22 704 656)	(19 827 306)
Transfers and Subsidies	37	(20 327 058)	(29 478 240)	(37 172 994)	(45 521 982)
General Expenses	38	(135 645 427)	(119 579 586)	(126 286 765)	(110 024 596)
Total expenditure		(928 949 390)	(931 647 254)	(926 710 700)	(929 051 602)
Operating surplus		173 848 782	129 285 182	169 839 860	124 783 780
Gain on disposal of assets and liabilities		716 192	862 083	646 992	883 418
Fair value adjustments	39	96 749	(4 200 000)	96 749	(4 200 000)
		812 941	(3 337 917)	743 741	(3 316 582)
Surplus for the year		174 661 723	125 947 265	170 583 601	121 467 198

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Consolidated Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Economic entity		
Balance at 01 July 2014	3 739 892 309	3 739 892 309
Changes in net assets		
Surplus for the year	125 947 266	125 947 266
Total changes	125 947 266	125 947 266
Opening balance as previously reported	3 605 441 218	3 605 441 218
Adjustments		
Correction of errors (Note 46)	260 398 357	260 398 357
Restated* Balance at 01 July 2015 as restated*	3 865 839 575	3 865 839 575
Changes in net assets		
Surplus for the year	174 661 724	174 661 724
Total changes	174 661 724	174 661 724
Balance at 30 June 2016	4 040 501 299	4 040 501 299

Note(s)

Controlling entity		
Balance at 01 July 2014	3 728 194 826	3 728 194 826
Changes in net assets		
Surplus for the year	121 467 198	121 467 198
Total changes	121 467 198	121 467 198
Opening balance as previously reported	3 589 263 667	3 589 263 667
Adjustments		
Correction of errors (Note 46)	260 398 357	260 398 357
Restated* Balance at 01 July 2015 as restated*	3 849 662 024	3 849 662 024
Changes in net assets		
Surplus for the year	170 583 601	170 583 601
Total changes	170 583 601	170 583 601
Balance at 30 June 2016	4 020 245 625	4 020 245 625

Note(s)

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Cash Flow Statement

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2016	2015 Restated*	2016	2015 Restated*
Cash flows from operating activities					
Receipts					
Sale of goods and services		327 963 324	331 918 264	319 339 593	287 304 854
Grants		747 241 150	706 253 174	747 241 150	706 253 174
Interest income		30 628 193	19 514 892	29 874 150	18 995 968
		1 105 832 667	1 057 686 330	1 096 454 893	1 012 553 996
Payments					
Employee costs		(312 201 457)	(283 986 203)	(296 976 886)	(276 111 229)
Finance costs		(13 556 116)	(12 812 729)	(13 556 084)	(12 812 707)
Other payments		(365 319 603)	(326 780 517)	(378 163 231)	(303 433 886)
		(691 077 176)	(623 579 449)	(688 696 201)	(592 357 822)
Net cash flows from operating activities	41	414 755 491	434 106 881	407 758 692	420 196 174
Cash flows from investing activities					
Purchase of property, plant and equipment	11	(360 357 854)	(322 488 765)	(359 454 754)	(322 240 016)
Proceeds from sale of property, plant and equipment	11	963 496	883 349	874 497	885 269
Purchase of other intangible assets	12	(4 901 812)	(2 514 806)	(4 895 935)	(2 479 944)
Proceeds from sale of other intangible assets	12	-	1 920	-	-
Purchases of financial assets		-	-	-	(100)
Proceeds from sale of financial assets		209 540	(283 053)	209 540	(283 053)
Net cash flows from investing activities		(364 086 630)	(324 401 355)	(363 266 652)	(324 117 844)
Cash flows from financing activities					
Repayment of other financial liabilities		(17 893 632)	(16 979 493)	(17 893 632)	(16 979 493)
Finance lease payments		(3 063 785)	(3 504 496)	(3 063 785)	(3 504 496)
Net cash flows from financing activities		(20 957 417)	(20 483 989)	(20 957 417)	(20 483 989)
Net increase/(decrease) in cash and cash equivalents		29 711 444	89 221 537	23 534 623	75 594 341
Cash and cash equivalents at the beginning of the year		246 549 434	157 327 897	232 922 238	157 327 897
Cash and cash equivalents at the end of the year	9	276 260 878	246 549 434	256 456 861	232 922 238

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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						
Economic entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	407 861 122	55 050 383	462 911 505	316 107 885	(146 803 620)	58
Rental of facilities and equipment	1 484 607	316 518	1 801 125	1 089 006	(712 119)	58
Other income	7 861 935	18 495 822	26 357 757	16 629 673	(9 728 084)	58
Interest received - investment	9 102 126	12 096 617	21 198 743	30 628 193	9 429 450	58
Total revenue from exchange transactions	426 309 790	85 959 340	512 269 130	364 454 757	(147 814 373)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	731 458 000	7 138 323	738 596 323	733 381 765	(5 214 558)	58
Public contributions and donations	5 084 234	2 477 421	7 561 655	4 961 650	(2 600 005)	58
Total revenue from non-exchange transactions	736 542 234	9 615 744	746 157 978	738 343 415	(7 814 563)	
Total revenue	1 162 852 024	95 575 084	1 258 427 108	1 102 798 172	(155 628 936)	
Expenditure						
Personnel	(290 323 933)	(14 560 093)	(304 884 026)	(302 629 306)	2 254 720	58
Remuneration of councillors	(9 916 190)	(1 150 877)	(11 067 067)	(9 543 737)	1 523 330	58
Depreciation and amortisation	(70 284 811)	(46 036 265)	(116 321 076)	(195 107 992)	(78 786 916)	58
Impairment loss/ Reversal of impairments	(23 071 655)	2 500	(23 069 155)	(97 093 187)	(74 024 032)	58
Finance costs	(18 951 934)	5 671	(18 946 263)	(13 556 116)	5 390 147	58
Lease rentals on operating lease	(1 000 000)	50 000	(950 000)	(2 799 296)	(1 849 296)	58
Bad debts written off	-	-	-	(196 710)	(196 710)	58
Repairs and maintenance	(58 496 974)	(5 134 441)	(63 631 415)	(63 151 041)	480 374	58
Bulk purchases	(69 255 000)	-	(69 255 000)	(66 091 136)	3 163 864	58
Contracted Services	(22 337 123)	(3 223 440)	(25 560 563)	(22 808 384)	2 752 179	58
Transfers and Subsidies	(95 189 882)	(3 416 431)	(98 606 313)	(20 327 058)	78 279 255	58
General Expenses	(145 760 837)	(3 659 611)	(149 420 448)	(135 645 427)	13 775 021	58
Total expenditure	(804 588 339)	(77 122 987)	(881 711 326)	(928 949 390)	(47 238 064)	
Operating surplus	358 263 685	18 452 097	376 715 782	173 848 782	(202 867 000)	
Gain on disposal of assets and liabilities	-	-	-	716 192	716 192	
Fair value adjustments	-	-	-	96 749	96 749	
	-	-	-	812 941	812 941	
Surplus before taxation	358 263 685	18 452 097	376 715 782	174 661 723	(202 054 059)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	358 263 685	18 452 097	376 715 782	174 661 723	(202 054 059)	

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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
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	9 052 932	15 147 791	24 200 723	11 524 055	(12 676 668)	
Current portion of long-term receivables	57 461	(3 013)	54 448	11 594	(42 854)	
Operating lease asset	-	-	-	46 289	46 289	
Receivables from non-exchange transactions	5 372 678	48 165 596	53 538 274	27 131 383	(26 406 891)	
VAT receivable	-	-	-	36 117 732	36 117 732	
Receivables from exchange transactions	75 878 189	25 196 687	101 074 876	59 351 120	(41 723 756)	
Cash and cash equivalents	234 570 635	33 180 746	267 751 381	278 567 023	10 815 642	
	324 931 895	121 687 807	446 619 702	412 749 196	(33 870 506)	

Non-Current Assets

Investment property	22 500 000	8 373 414	30 873 414	29 500 000	(1 373 414)	
Property, plant and equipment	2 579 253 144	1 190 904 176	3 770 157 320	3 996 395 865	226 238 545	
Intangible assets	12 508 519	(3 078 595)	9 429 924	11 504 130	2 074 206	
Long-term receivables	136 078	148 098	284 176	101 365	(182 811)	
	2 614 397 741	1 196 347 093	3 810 744 834	4 037 501 360	226 756 526	

Total Assets **2 939 329 636** **1 318 034 900** **4 257 364 536** **4 450 250 556** **192 886 020**

Liabilities

Current Liabilities

Current portion of long-term liabilities	17 815 991	5 262 264	23 078 255	19 727 697	(3 350 558)	
Operating lease liability	-	-	-	108 315	108 315	
Payables from exchange transactions	87 318 742	92 480 860	179 799 602	177 147 533	(2 652 069)	
Consumer deposits	20 559 365	476 340	21 035 705	20 606 607	(429 098)	
Unspent conditional grants and receipts	-	-	-	8 729 920	8 729 920	
Provisions	2 116 481	19 165 732	21 282 213	25 715 613	4 433 400	
Bank overdraft	-	-	-	2 306 145	2 306 145	
	127 810 579	117 385 196	245 195 775	254 341 830	9 146 055	

Non-Current Liabilities

Long-term liabilities	131 323 325	20 434 608	151 757 933	125 825 541	(25 932 392)	
Retirement benefit liabilities	31 435 616	(1 527 246)	29 908 370	15 571 785	(14 336 585)	
Other long-term employee benefits	-	-	-	14 010 102	14 010 102	
	162 758 941	18 907 362	181 666 303	155 407 428	(26 258 875)	

Total Liabilities **290 569 520** **136 292 558** **426 862 078** **409 749 258** **(17 112 820)**

Net Assets **2 648 760 116** **1 181 742 342** **3 830 502 458** **4 040 501 298** **209 998 840**

APPENDIX L - MANAGEMENT CORRECTIVE ACTION PLAN

UGU DISTRICT MUNICIPALITY CLEAN AUDIT ACTION PLAN FOR 2016/17

No	Workstream/ Category	Issue / Challenge	Corrective Action					
			Description of Required Management	Responsible Person			Start date	Targeted Completion Date
				Accountable Person	Reviewer	Preparor		
			Ensure that all expenditure is investigated timeously and written off by Council prior to 30 June 2016	MM	Manager: Internal Audit	Forensic Auditor	04/01/2016	26/05/2016
5	Assets Management	Maintenance and updating of the Asset Register	Quarterly physical verification with WS Operations staff	CFO & GM: WS	SM: WS Operations Manager: Assets	Senior Accountant: Assets	01/02/2017	30/06/2017
6	Commitments	Accuaracy and review of commitments	Monthly updating and review of the commitments register	CFO & GM WS	Snr Manager: PMU	Financial Controller	01/07/2016	30/06/2017
7	Financial Health	Debtors impairment provision	Write-off of irrecoverable debt by Council	CFO	Manager: Revenue	Accountant: Collections	01/03/2017	27/05/2017
		Current Liabilities as a % of net cash inflows from operating activities	Resolve all outstanding disputes with creditors	CFO	Manager: Expenditure	Accountant: Projects, Accountant: Expenditure	03/01/2017	30/06/2017
		Contingent Liabilities	Monitor register of contingent liabilities for long outstanding claims	Manco	MM	Manager: Legal Services	2017/02/01	2017/06/30
		Grant Expenditure	Ensure that all grants are fully spent by 30 June 2016	Manco	HODs	Project Managers	15/01/2017	30/06/2017
	Material losses and impairment	Debt collection	Ensure accurate and effective meter reading	GM WS and CFO	Manager Revenue and Manager WCDM	Technicians and Accountant collection	03/01/2017	30/06/2017