

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015

44. Multi-employer retirement benefit information (continued)

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the market value of the fund was R1 293,4 (31 March 2011: R1 056,2) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 1,95 times the member's contributions by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2012.

45. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	377 699 259	474 702 180	377 699 259	474 702 180
• Other	78 628 199	7 308 871	78 628 199	7 308 871
	456 327 458	482 011 051	456 327 458	482 011 051

Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	98 642 426	60 641 465	98 642 426	60 641 465
• Other	-	6 050 023	-	6 050 023
	98 642 426	66 691 488	98 642 426	66 691 488

Total capital commitments

Already contracted for but not provided for	456 327 458	482 011 051	456 327 458	482 011 051
Not yet contracted for and authorised by accounting officer	98 642 426	66 691 488	98 642 426	66 691 488
	554 969 884	548 702 539	554 969 884	548 702 539

Authorised operational expenditure

Already contracted for but not provided for

• Ugu South Coast Tourism - Operating expenditure	3 346 225	4 187 216	-	-
• South Coast Development Agency - Operating expenses	2 036 207	34 374	-	-
	5 382 432	4 221 590	-	-

Total operational commitments

Already contracted for but not provided for	5 382 432	4 221 590	-	-
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Total commitments

Total commitments

Authorised capital expenditure	554 969 884	548 702 539	554 969 884	548 702 539
Authorised operational expenditure	5 382 432	4 221 590	-	-
	560 352 316	552 924 129	554 969 884	548 702 539

46. Prior period errors

Corrections were made during the previous financial years. Details of the corrections are described below:

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015

46. Prior period errors (continued)

Property, Plant and Equipment	Year	Land and Buildings	Movables	Infrastructure	Total
Reported Amount	2014/15	148 278 443	41 229 274	3 400 410 038	3 589 917 755
Correction of error	2014/15	303 952	361 400	238 006 193	238 671 545
Restated Closing Balance		148 582 395	41 590 674	3 638 416 231	3 828 589 300

The correction in the prior year error relates the infrastructure assets that were found on the ground that were never brought to the FAR (Fixed Asset Register).

Payables from exchange transactions (Workmans compensation accrual)

Reported Amount	-	149 683 332	-	149 683 332
Correction of error	-	3 781 233	-	3 781 233
Restated Closing Balance	-	153 464 565	-	153 464 565

During the financial period, it was noted that workmans compensation fund has been for financial period 2014/15 was only paid during 2015/16 financial period and there was no accrual for the balance in the 2014/15.

Statement of financial position

Property, plant and equipment	-	238 671 545	-	238 671 545
Payables from exchange transactions (Sundry accruals)	-	(3 781 233)	-	(3 781 233)
Opening Accumulated Surplus or Deficit	-	(260 398 357)	-	(260 398 357)
	-	(25 508 045)	-	(25 508 045)

Statement of Financial Performance

Depreciation expense	-	24 186 915	-	24 186 915
General expenses (Workmans compensation)	-	1 321 130	-	1 321 130
	-	25 508 045	-	25 508 045

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
47. Contingent assets and contingent liabilities				
Guarantees:				
i) Hibiscus Coast Municipality: The Municipality issued a bank guarantee in favour of Hibiscus Coast Municipality in lieu of a deposit on the electricity accounts of the Municipality.	10 000	10 000	10 000	10 000
(ii) Eskom: The Municipality issued a bank guarantee in favour of Eskom to cover deposits on the electricity accounts of the Municipality.	2 852 000	2 852 000	2 852 000	2 852 000
(iii) South African Post office: The municipality issued a bank guarantee in favour of South African Post office.	200 000	200 000	200 000	200 000
	3 062 000	3 062 000	3 062 000	3 062 000

Court proceedings:

(i) Alleged Breach of Contract: Council has been involved in a court case with Thumbprint Events Management, where it is alleged that the Municipality has unilaterally repudiated a contract. Applicant is claiming unpaid invoices and damages in terms of what would have been due to them had the contract not been repudiated by the Municipality. The Municipality is defending this action and awaits a court date. The total claim is valued at R875 258.46 plus 30% of envisaged gate takings for two events and 25% of sale of floor space for two events (excluding VAT). The Municipality is currently negotiating a settlement with the Applicant and the matter is expected to be finalised by 30 June 2016.	875 248	875 248	875 248	875 248
(ii) The Municipality is enjoined with Umzumbe Municipality in litigation with MP & RV Conco regarding alleged illegal encroachment by the Municipalities. The applicants are wanting rehabilitation of their land. Costs are not yet determinable.	-	-	-	-
(iii) The parent municipality of the entity mandated consultants to assist in regularising their Value Added Taxation affairs. Upon conclusion of the said assignment, an ancillary finding was communicated to the parent, by the consultants, in that the grant funding charged out by the entity should indeed be Vatable. The entity has never levied Value Added Taxation on grants. The directors do not agree with the opinion of the consultants and have initiated steps to obtain a direct ruling from the South African Revenue Services. In any case, there is no loss to the fiscus as any possible effects are inter-governmental with all output directly corresponding with equal and opposite inputs on the governmental partner. Furthermore, the entity has been audited directly and specifically by the South African Revenue Services on its grants and no findings were made.	-	-	-	-

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

48. Related parties

Relationships

Accounting Officer

Ms EJ Crutchfield (South Coast Development Agency Acting CEO)

CEO of Ugu South Coast Tourism

Directors of Municipal Entities

Handerson (Ugu Councillor)

Ms V Tsako (General Manager: Corporate Services)

Ms LH Cele (General Manager: Water Services)

Ms SP Ngilande (General Manager: Budget and Treasury Office)

Ms Z Mbonane (General Manager: Infrastructure & Economic Development)

Mr SZ Khuzwayo (Senior Manager: Environmental Health and Infrastructure & Economic Development)

Mr FF Zama (Senior Manager: Mayoralty and Communication)

Mr J Van Der Walt (Senior Manager: Water Services Authority)

Mr PS Watson (Senior Manager: Water Services Operations)

Mr CM Mqoboli (Senior Manager: Project Management Unit)

Mr VO Mazibuko (Senior Manager: Human Resources)

Ms FW Mbili (Senior Manager: Strategic and Shared Services)

Refer to accounting officer's report

Refer to section 57 employee costs (note 30)

Refer to section 57 employee costs (note 30)

Refer to note for director's remuneration (note 30)

Barry Botha & Breytenbach Inc.

Section 57 Ugu District Municipality employee. Refer to note 29.

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Section 56 Ugu District Municipality employee.

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Related party transactions

Purchases from (sales to) related parties

Barry Botha & Breytenbach Inc.

- 105 550

49. Comparative figures

The comparative figures were restated as a result of the effect of Prior Period Errors.

50. Going concern

The 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.

51. Unauthorised expenditure

Opening balance	310 376 720	36 582 590	310 376 720	36 582 590
Unauthorised expenditure for the year	113 949 531	273 794 130	113 949 531	273 794 130
Unauthorised expenditure written-off during the year	(310 376 720)	-	(310 376 720)	-
	113 949 531	310 376 720	113 949 531	310 376 720

Incident

Budgeted amounts exceeded:

Disciplinary steps/ criminal proceedings: Investigations are being conducted by the internal audit.

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
51. Unauthorised expenditure (continued)				
Cash Line Items				
Personnel (Employee costs)	-	8 200 248	-	8 200 248
Repairs and maintenance	-	12 932 246	-	12 932 246
Lease rentals on operating lease	1 100 086	-	1 100 086	-
Non-Cash Line Items				
Depreciation and amortisation	75 598 213	107 555 977	75 598 213	107 555 977
Impairment loss	37 079 215	140 905 659	37 079 215	140 905 659
Fair value adjustment	-	4 200 000	-	4 200 000
Bad debts written-off	172 017	-	172 017	-
	113 949 531	273 794 130	113 949 531	273 794 130

52. Fruitless and wasteful expenditure

Opening balance	3 212 403	2 690 035	3 212 403	2 690 035
Obtained from business combination	-	54 228	-	-
Fruitless and wasteful expenditure - Interest on late payment	40 417	522 802	35 228	522 368
Fruitless and wasteful expenditure - Legal fees	37 276	-	37 276	-
Fruitless and wasteful expenditure - Interest on legal fees	340 958	-	340 958	-
Fruitless and wasteful expenditure - Penalties	45 773	-	45 773	-
Fruitless and wasteful expenditure - Additional collection fee	2 200	-	-	-
Fruitless and wasteful expenditure - SARS Interest	680 145	-	680 145	-
Fruitless and wasteful expenditure - Late cancellations	980	-	-	-
Fruitless and wasteful expenditure written-off	(3 218 544)	(54 662)	(3 212 403)	-
	1 141 608	3 212 403	1 139 380	3 212 403

Disciplinary steps/criminal proceedings:

Investigations are being conducted by internal audit on the "fruitless and wasteful expenditure" for the current year.

Disciplinary action is in progress for the prior year's fruitless and wasteful.

53. Irregular expenditure

Opening balance	153 582 391	242 919 032	151 888 760	242 919 032
Add: Irregular Expenditure - assumed from business combination	-	2 428 582	-	-
Add: Irregular Expenditure - current year	6 745 183	42 750 890	6 707 799	40 350 455
Less: Amounts written-off	(17 804 356)	(134 516 113)	(16 124 725)	(131 380 727)
	142 523 218	153 582 391	142 471 834	151 888 760

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015

53. Irregular expenditure (continued)

Details of irregular expenditure – current year - Economic entity

Disciplinary steps taken/criminal proceedings		
Expenditure contrary to the provisions of Regulation 44 of the Municipal Supply Chain Management Regulations	A report will be adopted by the Executive Committee, writing-off the "Irregular Expenditure".	4 540 143
Expenditure according to the provisions of Regulation 36 of the Municipal Supply Chain Management Regulations	Investigations are conducted by an internal audit.	2 205 040
Non-adherence to Supply Chain process	No disciplinary steps were taken	37 384
		6 782 567

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015

53. Irregular expenditure (continued)

Details of irregular expenditure – current year - Controlling entity

	Disciplinary steps taken/criminal proceedings	
Expenditure contrary to the provisions of Regulation 44 of the Municipal Supply Chain Management Regulations	A report will be adopted by the Executive Committee, witting-off the "Irregular Expenditure".	4 540 143
Expenditure according to the provisions of Regulation 36 of the Municipal Supply Chain Management Regulations	Investigations are conducted by an internal audit.	2 167 656
		6 707 799

Department	Date	Successful tenderer	Reason	Economic Entity	Controlling Entity
Municipal Manager's Office	24 May 2016	Wild Ginger Creative Consulting (Pty) Ltd	Additional copies to be made for the council meeting	37 000	37 000
Corporate Services	19 May 2016	Lootch Security Services	Security at Albersville from January to June 2016	106 009	106 009
Water Services	28 January 2016	Uvo Roads Surfacing and Maintenance	Invalid Tax Clearance Certificate	75 670	75 670
Water Services	28 January 2016	Wetspec CC	Invalid Tax Clearance Certificate	781 526	781 526
Water Services	30 June 2016	One Up Pumps and Refurbishment s	Invalid Tax Clearance Certificate	1 167 451	1 167 451
South Coast Development Agency	30 June 2016			37 384	-
				2 205 040	2 167 656

Furthermore, the municipality has made the following awards to persons in service of Government institutions contrary to the provisions of paragraphs 44 of the Municipal Supply Chain Management Regulations:

Company Name	Related Person	Municipal Capacity	Purchases for the year	Purchases for the year
Eaton Electronic South Africa (Pty) Ltd	FC Cambell Jr	South African Weather Service	-	21 314
Arch Actuarial Cons	C Wiess	Human Science Research Council	9 120	8 436
Business Zone 628 CC	NN Kekana	Gauteng Film Commission	995 064	453 281
Macsteel Fluid Control	DD Mokgatle	State Diamond Trader	-	129 760
Minolco (Pty) Ltd	K Makhaye	State Information Technology Agency	107 643	86 809

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
53. Irregular expenditure (continued)				
Nashua Communications	D Nchoba	NAT: Arts & Culture	645 918	1 063 205
Musakhe Trading	NP Chiliza	Kzn: Education	-	150 000
WCO Africa (Pty) Ltd T/A SANI	TS Setshedi	Tshwane University of Technology	1 238 441	1 060 372
Lamsta Suppliers And Projects	Mz Ndabankulu	Ec: Rural Dev & Agrarian Reform	-	485 768
Iphiko Lempilo Supplies Pty Ltd	TZ Nong	Kzn: Health	-	72 000
Illovo Sugar Ltd	M. Hankinson	Transnet Group	383 430	439 169
Aurecon Sa (Pty) Ltd	Z. Ebrahim	Social Housing Regulatory Authority	895 568	-
St Michaels Sands Hotel	YS. Song	Ithala Development Finance Corporation Ltd	-	16 600
Bigen Africa Services (Pty) Ltd	J. Botha	Bank Of Southern Africa	-	656 097
Pricewaterhousecoopers Combined Systems Pty Ltd	PJ. Mothibe	Independent Regulatory Board For Auditors	15 219	112 363
Consolidated African Technolog	SS. Ntsaluba	National Energy Regulator Of South Africa	157 889	141 075
CQS Technology Holdings	IB Skosana	Transnet Group	91 851	275 035
			4 540 143	5 171 284

54. Water losses

Water losses

Unaccounted water losses	27 141 118	28 211 242	27 141 118	28 211 242
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Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tempered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

A five-year strategic non-revenue water reduction was adopted and implemented by the Executive Committee in May 2014. The below-mentioned technical information was derived as part of the implementation plan:

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
54. Water losses (continued)				
Volumes in ML/year:				
System input volume	41 840	41 229	41 840	41 229
Billed authorised consumption	30 760	28 992	30 760	28 992
Unbilled authorised consumption	207	326	207	326
Apparent losses	3 423	3 487	3 423	3 487
Real losses	7 450	8 423	7 450	8 423
Estimated non-revenue water	11 080	12 237	11 080	12 237
	94 760	94 694	94 760	94 694
Number of connections	44 605	43 450	44 605	43 450
Real losses %	17,81 %	22,28 %	17,81 %	22,28 %
Water losses %	25,99 %	27,90 %	25,99 %	27,90 %
Non-revenue water %	26,48 %	28,53 %	26,48 %	28,53 %
	70,28 %	78,71 %	70,28 %	78,71 %

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2 673 470	2 038 851	2 673 470	2 038 851
Amount paid - current year	(2 673 470)	(2 038 851)	(2 673 470)	(2 038 851)
	-	-	-	-

No amounts were outstanding at the end of the financial year.

Audit fees

Opening balance	25 441	368 161	-	368 161
Assumed from business combination	-	1 154	-	-
Current year subscription / fee	3 765 918	2 976 641	3 090 207	2 384 650
Amount paid - current year	(3 747 363)	(2 951 200)	(3 090 207)	(2 384 650)
Amount paid - previous years	(19 335)	(369 315)	-	(368 161)
	24 661	25 441	-	-

PAYE and UIF

Current year subscription / fee	41 997 910	41 727 088	40 363 103	40 340 203
Amount paid - current year	(38 515 131)	(41 727 088)	(36 880 324)	(40 340 203)
	3 482 779	-	3 482 779	-

Pension and Medical Aid Deductions

Current year subscription / fee	63 604 344	57 503 338	63 100 259	56 522 612
Amount paid - current year	(63 604 344)	(57 503 338)	(63 100 259)	(56 522 612)
	-	-	-	-

No amounts were outstanding at the end of the financial year.

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
55. Additional disclosure in terms of Municipal Finance Management Act (continued)				
VAT				
VAT receivable	36 117 732	-	36 461 097	-
VAT payable	-	498 300	-	855 061
	36 117 732	498 300	36 461 097	855 061

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor VL Ntanza	2 749	6 961	9 710
Councillor ST & PY Gumede	2 161	1 598	3 759
Councillor ST Gumede	119	198	317
Councillor TN Dzingwa	1 165	93	1 258
Councillor NH Gumede	2 591	-	2 591
Councillor NA Madlala	123	-	123
Councillor MA & ZP Chiliza	166	-	166
Councillor MJ Sibango	972	-	972
Councillor Y Nair	1 521	-	1 521
Councillor SM Zuma	79	-	79
Councillor IM Mavundla	57	-	57
Councillor SB & SP Cele	41	-	41
	11 744	8 850	20 594

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor VL Ntanza	1 138	1 219	2 357
Councillor TN Dzingwa	754	1 824	2 578
Councillor NA Madlala	116	-	116
Councillor NH Gumede	1 794	-	1 794
Councillor ST Gumede	111	779	890
Councillor SB & SP Cele	-	5 072	5 072
Councillor ST & PY Gumede	422	3 115	3 537
Councillor SM Mohamed	819	-	819
	5 154	12 009	17 163

56. Change in estimate

Property, plant and equipment

The useful life of certain property plant and equipment items was estimated in prior periods was revised during the current period by the management.