

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

57. Events after the reporting date

In terms of section 12 of the Local Government Municipal Structures Act, No 117 of 1998; 3,5 wards will be transferred to Ethekwini Municipality effective from the 10th August 2016.

With effect from 1 July 2016, the operations and administration of the company have been transferred as a going concern, together with all operations, human resources, fixed assets, agreements, contracts, directors and shareholding arrangements, to a new company registered with CIPC called Ugu South Coast Development Agency (RF) SOC LTD registration number 2016/158371/30.

The transfer was concluded in terms of a Memorandum of Agreement signed by the parent, Ugu District Municipality, and the two municipal entities, South Coast Development Agency NPC and Ugu South Coast Development Agency (RF) SOC LTD in June 2016.

The formation of the new company and transfer of operations was necessary as a Non Profit Corporation could not be converted into a State-Owned Company. In terms of Section 16(6) of the Companies Act, Act 71 of 2008, only a profit company can be converted into another category of company.

A new bank account has since been registered in the name of the new company.

58. Actual operating expenditure versus budget operating expenditure

It is general practice to deem that a 10% deviation on operational revenue and expenditure versus the final budget as material.

1. Service charges (-32%). The billed revenue was less than anticipated due to a less connections.
2. Rental of Facilities and Equipment (-40%). The lease agreement for Ugu Markets were not renewed.
3. Interest Earned (41%). More investment income was earned from notice deposits accounts at favourable rates.
4. Other revenue (-47%). Grant rollovers were budgeted as part of other income as Provincial Treasury request.
5. Remuneration for councillors (19%). The subsistence allowance for councillors was over budgeted as it was anticipated that councillors would travel more often as this was the elections period. However the election date was postponed.
6. Lease rentals from operating leases (-116%). There were new photocopiers and scanners leased during the period.
7. Depreciation and amortisation (-65%). More assets were identified through the asset verification project and updated in the FAR.
8. Impairment loss (-161%). Increase in debtors impairment provision is due to the pending results of the meter audit.
9. Finance costs (48%). No new loans were taken during the financial year under review. Finance lease for motor cars were fully paid.
10. Contracted servcices (11%). Less maintenance work was outsourced during the year under review.
11. Grants and Subsidies paid (62%). Less as the actual figures does not include the indigent support and free basic services.
12. General expenses (17%). The municipality implemented some cost cutting measure, especially of the non-core related expenses.

Refer to Appendix D1 for the comparison of actual operating expenditure versus budgeted expenditure.

59. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix D2 for the comparison of actual capital expenditure versus budgeted expenditure.

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60. 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 financial statements.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Economic Entity

Department - June 2016

	Reason	Sub-section	Amount
Water Services	Sole Supplier	S36(ii)	56 440
Corporate Services	Extention of security tender	S36(ii)	8 235 384
Corporate Services	Emergency	S36(ii)	4 836 471
Corporate Services	Agent	S36(ii)	150 000
Ugu South Coast Tourism	Sole Supplier	S36(ii)	28 237
Ugu South Coast Tourism	Impossible to obtain three quotes	S36(ii)	2 166 072
South Coast Development Agency	Sole Supplier	S36(ii)	15 960
South Coast Development Agency	Impossible to obtain three quotes	S36(ii)	339 975
			15 828 539

Department - June 2015

	Reason	Sub-section	Amount
Corporate Services	Agent	S36(ii)	950 000
Water Services	Emergency	S36(ii)	3 814 351
Treasury	Sole Supplier	S36(ii)	121 713
Ugu South Coast Tourism	Sole Supplier	S36(ii)	484
Ugu South Coast Tourism	Impossible to obtain three quotes	S36(ii)	1 898 950
South Coast Development Agency	Sole Supplier	S36(ii)	12 934
			6 798 432

Controlling Entity

Department - June 2016

	Reason	Sub-section	Amount
Water Services	Sole Supplier	S36(ii)	56 440
Corporate Services	Extention of security tender	S36(ii)	8 235 384
Corporate Services	Emergency	S36(ii)	4 836 471
Corporate Services	Agent	S36(ii)	150 000
			13 278 295

Department - June 2015

	Reason	Sub-section	Amount
Corporate Services	Agent	S36(ii)	950 000
Water Services	Emergency	S36(ii)	3 814 351
Treasury	Sole Supplier	S36(ii)	121 713
			4 886 064

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60. Deviation from supply chain management regulations (continued)

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

The majority of the items mentioned resulted from flood damage that had to be addressed at short notice and the response times did not allow for the complete procurement process to be followed. The balance of items was due to emergency circumstances and economic benefits for the municipality.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Table of Contents

1. INTRODUCTION	436
2. BACKGROUND	436
2.1 Functions of the Municipal Public Accounts Committee	437
2.2 Composition Of The Municipal Public Accounts Committee (MPAC)	437
2..3 Meeting Schedule	438
3. ANNUAL REPORT CHECKLIST	439-444
4. ANNEXURES	445
5. CONCLUSION	445

1. INTRODUCTION

The Municipal Finance Management Act (MFMA) assigns specific oversight responsibilities to Council in regards to the Annual Report and the preparation of an Oversight Report.

Given the processes required by Council to effectively undertake its oversight role, the establishment of MPAC of Council was identified as the relevant committee to provide the appropriate mechanism in which Council could fulfill its oversight responsibilities.

The MPAC's primary role is to consider the Annual Report, receive input from the various role players and to prepare a draft Oversight Report for consideration by Council.

2. BACKGROUND

The oversight role of Council is an important component of the financial reforms and it is achieved through the separation of roles and responsibilities between Council, the Executive (Mayor and Executive Committee) and Administration. Good governance, effective accountability, and oversight can only be achieved if there is a clear distinction between the functions performed by the different role players.

Non-executive Councillors are required to maintain oversight on the performance of specific responsibilities and delegated powers that they have given to the Executive (Mayor/Executive Committee). In other words, in exchange for the powers in which Council have delegated to the Executive, Council retains a monitoring and oversight role ensuring that there is accountability for the performance or non-performance of the municipality.

The Municipal Finance Management Act, No.56 of 2003 (MFMA) vests in Council specific powers of approval and oversight.

- ✓ Approval of budgets;
- ✓ Approval of Budget related Policies; and
- ✓ Review of the Annual Report and adoption of the Oversight Report.

2.1 Functions of the Municipal Public Accounts Committee

The functions of the MPAC are to:

- ✓ Undertake a review and analysis of the Annual Report.
- ✓ Invite, receive, and consider inputs from Councillors and Portfolio Committees, on the Annual Report.
- ✓ Consider written comments received on the Annual Report from the public consultation process.
- ✓ Conduct Public Hearing(s) to allow the local community or any organs of state to make representations on the Annual Report.
- ✓ Receive and consider Council's Audit Committee views and comments on the annual financial statements and the performance report.
- ✓ Preparation of the draft Oversight Report, taking into consideration, the views and inputs of the public, representative(s) of the Auditor-General, organs of state, Council's Audit Committee and Councillors.

2.2 Composition Of The Municipal Public Accounts Committee (MPAC)

a. Membership

The Municipal Public Accounts Committee is a committee of Council established under section 79 of the Municipal Structures Act, 1998. Section 79, allows for the co-option of advisory members to a Committee of Council, who are not members of the Council.

Due to the separation of roles and responsibilities, between Council and the Executive (Mayor and Executive Committee) Ugu District Municipality identified non-executive members of Council to be members of the MPAC.

b. Authority & Power

The MPAC is delegated the responsibility to conduct meetings and to hold public hearings to receive and hear public submissions on the Annual Report, on behalf of Council.

Timely notice of all meetings should be given and all meetings held by the MPAC must be open to the public and minutes of the meetings must be submitted to Council meetings.

2..3 Meeting Schedule

The Annual Report was tabled to Council on 26 January 2017 and was referred to the MPAC to prepare Oversight Report. The community was advised through the print media of the availability of the Annual Report and was invited to submit representations on the report.

The Annual Report was available at all municipal libraries and offices and was also placed on the Municipality website www.ugu.gov.za. The Annual Report was submitted to the Auditor-General, Provincial Treasury and the Department of Local Government and Traditional Affairs.

At the closing date for public submissions on 23 February 2017 no submissions were received. The Public were invited to the tabling of the Annual Report to Council on 26 January 2017 and no members of the public attend.

3. ANNUAL REPORT CHECKLIST

ANNUAL REPORT COMPLIANCE	
1. Financial Matters – Annual Financial Statements - Section 121 (3) MFMA	RESPONSES/ COMMENTS
<p>121 (3)(a)</p> <p>The annual financial statements (AFS) for the municipality and, if applicable, consolidated statements (with all entities) as submitted to the Auditor-General.</p>	<ul style="list-style-type: none"> • The Consolidated Annual Financial Statements are included in the annual report and are in the required accounting standards. • The Auditor General's Report as presented to Council on 26 January 2017 confirms that the Municipal Consolidated Annual Financial Statements were fairly presented
<p>121 (3)(a)</p> <p>121 (4)</p> <p>121 (4)(b)</p>	<ul style="list-style-type: none"> • No indication of deviation from the accounting standards was raised by the Auditor General at the time of the presentation of the audit report on 26 January 2017
<p>121 (3) (e) An assessment by the accounting officer on any arrears on municipal taxes and service charges, including municipal entities.</p>	<ul style="list-style-type: none"> • Volume II, Annual Financial Statements in the annual report shows assessment by the Accounting Officer including action required.
<p>121 (3)(g)</p> <p>Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports.</p>	<ul style="list-style-type: none"> • The municipality achieved an unqualified audit opinion for the financial year ended 30 June 2016. • The corrective action plan has been developed with clear responsibilities and timeframes to address issues raised in the audit report.

	<ul style="list-style-type: none"> The 2015/2016 annual report with the audit report and corrective actions will be submitted to the MEC for Cooperative Government & Traditional Affairs (Cogta) 14 days after the 23rd of March 2017.
<p>121 (3)(f)</p> <p>An assessment by the municipality's accounting officer of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each vote in the approved budget.</p>	<ul style="list-style-type: none"> The municipal budget is in compliance with S17 (3)(b) of the Municipal Finance Management Act and has taken the IDP into account and the objectives are reported on, in the Annual report. The details of performance according to community and Council expectations are included in the Annual Report. For the year ended 30 June 2016, the municipality achieved 84% for its SDBIP implementation.
<p>121 (3)(j) and 121 (4)(g)</p> <p>Recommendations of the audit committee in relation to the AFS and audit reports of the municipality and its entities.</p>	<ul style="list-style-type: none"> The audit committee recommendations were effected before the Annual Financial Statements were submitted to Auditor General. The Chaperson's report in the Annual Report details the requirements as planned and performed.
2. Disclosures - Allocations received and made - Section 123-125 MFMA	RESPONSES/ COMMENTS
<p>123 (1)(a)</p> <p>Allocations received by and made to the municipality.</p>	<ul style="list-style-type: none"> Allocations received have been disclosed in Appendix F of the Annual Financial Statements, volume II of the annual report. No allocations were received from other municipalities. Details of allocations made to the municipal entities, Ugu South Coast Development Agency and Ugu Development Agency, have been disclosed on note 12 of the Annual Financial Statements. Allocations received and withheld have been disclosed in Appendix F of the Annual Financial Statements.

125 (1) Information in relation to outstanding debtors and creditors of the municipality and entities.	<ul style="list-style-type: none"> Information of amounts in arrears for more than 30 days has been disclosed in Note 3 of the Annual Financial Statements. Statutory commitments have been disclosed in Note 47 of the Annual Financial Statements.
2. Disclosures - Allocations received and made - Section 123-125 MFMA	RESPONSES/ COMMENTS
123 (1)(c) Information in relation to the use of allocations received.	<ul style="list-style-type: none"> Allocations received has been disclosed in Note 23 and 24 of the Annual Financial Statements. DORA disclosures on compliance with conditions of the grant has been disclosed in Note 23 and 24 of the Annual Financial Statements. Grants withheld have been disclosed in Appendix F of the Annual Financial Statements. The Grant Schedule and expenditure is reported on, regularly at Council. The Audit Committee examines the expenditure reports as reported.
3. Disclosures in notes to AFS (section 124)	RESPONSES/ COMMENTS
Information relating to benefits paid by municipality and entity to councillors, directors and officials.	<ul style="list-style-type: none"> Salaries; allowances and benefits of political office bearers have been disclosed in Note 30 of the Annual Financial Statements. Arrears owed by Councillors have been disclosed in Note 47.6 of the Annual Financial Statements. Salaries of the Municipal manager, CFO, and other senior managers have been disclosed in Note 29 of the Annual Financial Statements.