



**MAKANA**  
MUNICIPALITY | EASTERN CAPE  
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# **MAKANA LOCAL MUNICIPALITY**

## **ADJUSTED ANNUAL PERFORMANCE REPORT 2016/17**

## **1. INTRODUCTION**

The Annual Performance Report is hereby submitted to the Makana Municipal Council in terms of the Municipal Systems Act (MSA), 32 of 2000, section 46(1) and (2), as well as the MFMA Circular 11 on annual reporting. This report covers the performance information from **01 July 2016 to 30 June 2017** and focuses on the implementation of the Service Delivery and Budget Implementation Plan (SDBIP), in relation to the objectives as encapsulated in the Municipality's Integrated Development Plan (IDP) for the year under review.

This report reflects actual performance of the Municipality as measured against the performance indicators and targets in its Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP) for 2016/2017.

The format of the report will reflect the Municipality's Key Performance Indicators (KPI) per Municipal Key Performance Area. Each Municipal Key Performance Area (KPA) has a number of Municipal Key Focus Areas (KFA's) which had been deliberately designed by the Makana Municipality to focus its development initiatives in a more coherent and organised manner.

This report will also endeavour to report to Council the Municipality's performance in terms of the five (5) National Government's Strategic Key Performance Areas for local government, which are (1) Basic Service Delivery; (2) Local Economic Development; (3) Municipal Institutional Transformation and Development; (4) Municipal Financial Viability and Management and (5) Good Governance and Public Participation.

## **2. LEGISLATIVE REQUIREMENTS**

This Annual Performance Report has been compiled in compliance with the requirements of section 46 (1) of the Local Government: Municipal Systems Act, 2000; which stipulates as follows:

- (1) A municipality must prepare for each financial year a performance report reflecting—
- (a) the performance of the municipality and each external service provider during that financial year;
  - (b) a comparison of the performance referred to in paragraph (a) with targets set for performance in the previous financial year; and
  - (c) measures taken to improve performance.

In addition, Regulation 7 (1) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 states that "A Municipality's Performance Management System entails a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players." Performance management is not only relevant to the organisation as a whole, but also to the individuals employed in the organisation as well as the external service providers and the Municipal Entities.

## 5. ACTUAL RESULTS FOR THE 2016/17 FINANCIAL YEAR

This section of the Annual Performance Report will report on the Municipality's actual performance against the planned targets as derived from the Municipality's IDP. Due to the fact that the Municipality has developed six (6) KPA's the Makana Municipality will report as such. An overview of the overall Municipality's actual performance table 5.1 and performance against set KPI linked to the National KPA's are depicted in Table 5.2 below

### 5.1 KEY PERFORMANCE AREA OVERALL PERFORMANCE REPORT:

2016/17 FINANCIAL YEAR	2015/16 Financial %	2016/17 Financial year	
		Actual performance	Actual Percentages
Achieved	47%	37	52%
Partially Achieved		11	15%
Not achieved	53%	23	33%
Planned	100%	71	100%

### 5.2 KEY PERFORMANCE AREAS PLANNED TARGETS VS ACTUAL RESULTS FOR THE 2016/2017 FINANCIAL YEAR

2016/17 FINANCIAL YEAR	Planned KPI	Achievement	Partially Achieved	Not Achieved
Basic Services Delivery	24	7	10	7
Local Economic Development	20	12	N/A	8
Municipal Financial Viability	5	5	N/A	0
Municipal Transformation and Institutional Development	6	4	N/A	2
Good Governance and Public Participation	16	9	1	6

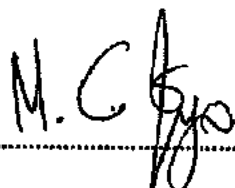
#### 4. Municipal Financial Viability and Management

Indicator	2015/16	2016/17
Debt coverage ((Total operating revenue - operating grants received) / Debt service payments due within the year)	42%	45%
Service debtors to revenue (Total outstanding service debtors / Annual revenue received for services)	75%	78%
Cost coverage ((Available cash + investments) / Monthly fixed operating expenditure)	88%	87%

#### 5. Good Governance and public Participation

Indicator	2015/16	2016/17
The percentage of a municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan	36%	53%

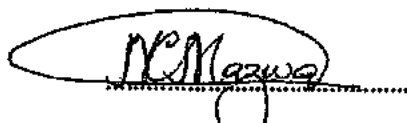
Compile by



MZOLISI PASIYA

IDP/PMS Manager

Signed off by



Ms NOMTHANDAZO MAZWAYI

ACTING MUNICIPAL MANAGER

29/11/2017

DATE

KPA 1: BASIC SERVICE DELIVERY AND INFRASTRUCTURE DEVELOPMENT										
STRATEGIC OBJECTIVE	KEY FOCUS AREA	IDP Project/programme	KPI NUMBER	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	2015-16 Actual Performance	STATUS	Actual Performance 2016-17	Reason for deviation	Corrective Action
To provide efficient,economical refuse collection,recycling services and infrastructure development	WASTE MANAGEMENT - CLEAN CITY	Refuse removal	KPI:108PSC	Report on Collection of domestic and Businesses refuse in all formal and Informal areas in Grahamstown quarterly	4 Reports on the Cleaning of formal area	New Indicator	Achieved	Achieved:4 Reports cleasing were issue and submitted to Porfolio Committees	N/A	N/A
			KPI:107PSC	Monthly collection of garden refuse in all 45 identified dumping sites in Grahamstown qaurterly	4 Reports	New Indicator	Not Achieved	Not Active:Only about 20 dumping sites in average that municipality could cleared quarterly	Most legal dump sites could not be cleared due to continually break down of the only front end loader used for cleaning.	Acquisition of one front loader has been priorities for 2017/18 financial year
		Upgrading of Landfill sites	KPI:108PSC	Report on the milestones achieved against planned upgrading of Grahamtown landfill site	1 Report on Grahamstown landfill sited upgrading by June 2017	New Indicator	Achieved	Achieved:Report on the upgrade of landfill was issue and submitted to Council on 25 January 2017 detailing progress made.	N/A	N/A
To provide and maintain community facilities	RECREATIONAL FACILITIES	Multi Purpose Indoor Sport Centre in ward 7	KPI: 107EI	Completion of construction of Multi Purpose Indoor Sport Centre in ward 7 by June 2017	Completion of the project	Construction of Multipurpose Centre has been done, however performance information is not able to verify that 60% of the project was done by the end of June 2016.	Partially Achieved	Partially Achieved:The construction of Multi-Purpose Indoor Sport Centre Structure was completed, however, completion certificate has not been issued by the contractor.	The contractor is busy with snags which was due to delay in construction	The project will be completed in the 2017/18 First Quarter.
		Multi-Purpose Indoor Sport Centre Gymnasium	KPI: 108EI	Appointment of contractor to built Sport Centre Gymnasium	Appointment for the construction of gymnasium	New Indicator	Not Achieved	Not Achieved:Appointment of the contractor for the construction of gymnasium was not achieved.	Delays in the SCM processes are such that the project is in the final stages of procurement in the form of a BAC.	The contractor will be appointed in the 2017/18 First Quarter.
Upgrading and Refurbishment of Electricity infrastructure and fleet	ELECTRICITY INFRASTRUCTURE	Construction of (11) High Mast at Mayfield Housing Projects	KPI: 113EI	Construction of (11) High Mast at Mayfield Housing Projects by June 2017	11 High Mast constructed	Service provided was appointed	Partially Achieved	Partially Achieved:11 High Mast were constructed	The handover has not been done due to snags to be completed and connection to network for Riebeeck East highmast.	The handover to the municipality will be done as soon as Eskom connects the outstanding highmast light in Riebeeck East.
		Makana Infill & Pre-Engineering Mayfield & Fort Brown	KPI: 114EI	Procurement of services for construction of 66 KV Overhead Line	Appointment of a service providers and contractor.	New Indicator	Not Achieved	Not Achieved:Appointment of service provider to construct 66 KV overhead line	Application was done to MISA but funding was not secured	N/A



Strategic Objective	Key Focus Area	IDP Project/programme	KPI Number	Key Performance Indicator	Annual Target	2015-16 Actual Performance	Status	Actual Performance	Reason for deviation	Corrective Action
KPA 2: LOCAL ECONOMIC DEVELOPMENT										
To maintain and upgrade existing roads and stormwater	ROADS BRIDGES AND TRANSPORT INFRASTRUCTURE-	Free basic service: Refuse removal	KPI: 107MFM	Report on the number of indigent households with access to free refuse removal services	4 Reports on the number of people receiving free refuse removal services	New Indicator	Partially Achieved	Partially Achieved: on average 6136 indigent households have access to free refuse removal services	Only quarter three and four report were issued due to changes in financial management systems	Review of the target to be aligned with Key performance indicator
		Free basic service: Rate and taxes	KPI: 108MFM	Report on the number of indigent households with access to free rates and taxes	4 Reports on the number of people receiving free removal services access to rates and taxes	New Indicator	Partially Achieved	Partially Achieved: 5641 indigent households have access to rates and taxes	Only quarter three and four report were issued due to changes in financial management systems	Review of the target to be aligned with Key performance indicator
		Monitoring and Evaluation Service Delivery	KPI: 407MTID	Report on 4 RBIG Infrastructure development projects - James Kleyrhans Bulk Water - Belmont WWTW - KwaThatha Bulk Sewer - Mayfield WWTW	1 Report is compiled	New Indicator	Partially Achieved	Partially Achieved: There were four gazetted water and sanitation project by National treasury, however only one project implemented James Kleyrhans Bulk Water upgrade and progress report was issued.	Budget adjustment by RBIG who is funder	N/A
				Report on 1 Project by PDoHS Eluxolweni Plumbing Works project	1 Report is compiled	Sewer connection couldnt be implemented as available funds were only for planning purposes	Not Achieved	No Achieved: No report was issued	Project has been taken over by ECDC for implementation	N/A
To enhance service delivery through Monitoring and evaluation	MONITORING AND REPORT EMENT PROJECTS			Report on 3 Project by DWIS - Bucket Eradication Programme	1 Report is compiled	Revised KPI, Municipality was not implementing agency, its role was to monitor progress and report	Achieved	Achieved: Bucket eradication programme report was issued and closed out report was submitted Portfolio Committee on 16/03/17 (ID: 811).	N/A	N/A
		Upgrading Alicedale Roads (Phase I Expenditure)	KPI: 104EI	Appointment of contractor to upgrading of Alicedale Road phase I.	Appointment contractor	New Indicator	Achieved	Achieved: Razz Civils/Amadwala JV was appointed on 26 April 2017 to upgrade Alicedale Road Phase 1	N/A	N/A
		Alicedale Roads and Stormwater Improvements Transriver & Mandelara Road (Phase II)	KPI: 105EI	Appointment of contractor to upgrading of Alicedale Road and Stormwater in Transriver & Mandelara road by June 2017	Appointment contractor	New Indicator	Not Achieved	Achieved: Appointment of the contractor was not done.	All procurement process has been completed. The appointment letter has not been issued to the contractor yet.	Expedite the issuing of the appointment letter to the contractor.
		Upgrade of KwaNomzamo Internal Road at Riebeeck East	KPI: 106EI	Upgrading 3 m of KwaNomzamo Internal Road at Riebeeck East	1 KM upgraded	New Indicator	Achieved	Achieved: One (1) KM in KwaNomzamo Internal Road has been completed.	N/A	N/A

Maximise economic growth and development takes place in a conducive environment 2017	SMME DEVELOPMENT	Aloe processing initiative in Alicedale	KPI:113LED	Appointment of service provider to compile business plan for establishment of aloe processing plant in Alicedale	Service provider appointed to conduct feasibility study by June 2017	Not done due to delay in the approval of feasibility study	Not Achieved	Not Achieved:Service provider was not appointed	The programme was discarded due to irregularities identified during the procurement processes	The programme will be prioritised in the 2017/18 financial year	
		SMME start-up package	KPI:114LED	Source funding for two SMME start-up package	Funding received for 2 SMME start-up packages	5 Start-up packages where achieved, target was 10	Achieved	Achieved:Funding were secured for four SMME's with SDDM and SLA was signed in January 2017	N/A	N/A	
	TOURISM DEVELOPMENT	Creative City Project	KPI:115LED	Report to Portfolio Committee on initiatives identified for implementation under Creative City project	Number of initiatives identified for implementation under Creative City Project	The Business Plan and an implementation plan have been completed	Not Achieved	Not Achieved:Creative City Project was not implemented	The project didnt happen due to dependence of project on the external stakeholder	The programme will be prioritised in the 2017/18 financial year	
		Support to Makana Tourism	KPI:116LED	Proof that municipal financial and technical support yielded positive impact in terms of tourism growth and the functioning of Makana Tourism	4 quarterly reports submitted to Portfolio Committee	New Indicator	Achieved	Achieved:4 Report were issued on financial and technical assistance to Makana Tourism	N/A	N/A	
		Support to crafters	KPI:117LED	Report on crafters supported by the municipality to participate in the NAF	4 crafters participated in the NAF projects	Four crafter benefited during festival	Achieved	Achieved:Four crafters were supported to in National Arts Festival(NAF)	N/A	N/A	
		Grey Dam Development	KPI:118LED	Service provider appointed to conduct feasibility study on the development of the Grey Dam	Service provider appointed to conduct feasibility study by June 2017	New Indicator	Achieved	Achieved:Ilizwe Town and Regional Planners was appointed	N/A	N/A	
KPA 2: LOCAL ECONOMIC DEVELOPMENT											
growth and development takes	STRATEGIC OBJECTIVE	KEY FOCUS AREA	IDP Project/programme	KPI NUMBER	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	2015-16 Actual Performance	STATUS	Actual Performance	Reason for deviation	Corrective Action
			Installation of signboard at Egazini Heritage Site	KPI:119LED	Signboard installed at Egazini Heritage Site	1 signboard installed by June 2017	The project scope was developed in March 2015 Due to lack of funds the project didn't commence	Achieved	Achieved. The signboard was stolen within a week after installation and a POE was submitted to confirm the instalment.	N/A	N/A
	JOB CREATION	Number of work opportunities created through EPWP (Infrastructure)	KPI:120LED	Number of work opportunities created through Municipal Programme	One report submitted to Council	Revised KPI previously focus was to establish structure-Four to CWP Reference Committee and LED Portfolio Committee	Achieved	Achieved:Report on number of job created was issued through Municipal Programme	N/A	N/A	



STRATEGIC OBJECTIVE	BUDGET	IDP Project/Programme	KPI NUMBER	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	2015-16 Actual Performance	STATUS	Actual Performance	Reason for deviation	Corrective Action
KPA 4: MUNICIPAL TRANSFORMATION & INSTITUTIONAL DEVELOPMENT										
To provide a credible budget			KPI: 123MFM	Compilation of the Annual budget 2016/2017	2016/2017 MFMA Compliant budget by 31 May 2017	2016/17 Budget has been approved on the 26 May 2016 by Council	Achieved	Achieved: 1. Final Draft Budget compiled and submitted for Council approval. 2. Notice of the Budget within 10 days after tabling	N/A	N/A
			KPI: 124MFM	Adjustment budget by 28 February 2016	MFMA Compliant 2016/2017 Adjustment budget	New Indicator	Achieved	Achieved: 1. Council Resolution considering the Adjusted budget. 2. Notice of the adjusted budget	N/A	N/A
	INTEGRATED DEVELOPMENT - PLANNING	Review of IDP	KPI: 412MTID	Development of the 2017/2021 IDP by 30 May 2017	Development of the 2016/2017 IDP	New Indicator	Achieved	Achieved: Final Draft IDP Developed and submitted for Approval to Council	N/A	N/A
		Review of IDP	KPI: 413MTID	Development of the IDP and Budget Process Plan for 2017/2021 review by 31 August 2017	Development of the 2017/2021 IDP and Budget Process Plan	New Indicator	Achieved	Achieved: Process Plan was developed and approved	N/A	N/A
To undertake holistic integrated development and spatial planning	INFORMATION TECHNOLOGY	IT Improvement	KPI: 414MTID	Acquisition IT Hardware equipment	Acquisition desktop and laptop PC	New Indicator	Achieved	Achieved: Acquisition IT Hardware equipment was done	N/A	N/A
		Individual PMS	KPI: 415MTID	Signing of Performance agreements by all 5 Senior Managers	5 Senior Managers sign their Performance Plans	New Indicator	Achieved	Achieved: 5 Performance Plans were signed	N/A	N/A
	KPI: 416MTID		Signing of Performance agreements by all 27 Middle Managers	5 Middle Manager sign their Performance Plans	New Indicator	Not Achieved	Not Achieved: Signing of Performance agreements for 27 Middle Managers	Performance was not done due to none cascading of PMS	To be priorities in 2017/18 after employment contracts have	
Enhance service delivery through performance management and monitoring	PERFORMANCE MANAGEMENT SYSTEM	Quarterly Performance Reports	KPI: 409MTID	90% KPI achieved in the Institutional score card quarterly	90%	New Indicator	Not Achieved	Not Achieved: 90% was not achieved	90% was not achieved due to lack funding	Reprioritising was done 2017/18 financial year
		KPA 5: GOOD GOVERNANCE AND PUBLIC PARTICIPATION								
STRATEGIC OBJECTIVE		IDP Project/Programme	KPI NUMBER	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	2015-16 Actual Performance	STATUS	Actual Performance	Reason for deviation	Corrective Action
		Mid-In-year Performance Assessment	KPI: 410MTID	Compilation and tabling of the Mid-Year Performance Assessment (s72)	Mid-Year Report Compiled	Mid-In-year Performance Assessment has been submitted to Council 29 January 2016	Achieved	Achieved: Mid-Year Performance Report was compiled and table to Council in February 2017	N/A	N/A



			Customer complaints	KPI:511GGP	Report on customer complaints recorded, resolved and pending	12 Reports on the resolved issues from the Municipal Customer Care Complaints register	New Indicator	Achieved	Achieved Reports on resolved issues from the Municipal Customer Care Complaints Register were submitted to the Portfolio Committee	N/A	N/A
			Newsletters	KPI:512GGP	Number of Newsletters developed	4 Newsletters	New Indicator	Not Achieved	Not Achieved, No new letter was issued	No news letter were issued due to cashflow challenges	The programme will be prioritised in the 2017/18 financial year
To promote the mainstreaming and upliftment of HIV and AIDS , women and children, youth, people with disabilities and the elderly into municipal Socio-Economic Programmes and Projects	MAINSTREAMING		HIV/Aids programme	KPI:513GGP	Report on the Implementation of the HIV/Aids Strategy and plan	4 Monthly Reports	Four Quarter report were issued	Achieved	Achieved :4 Report on the Implementation of the HIV/Aids Strategy and plan was submitted to Mayoral Committee	N/A	N/A
			SPU activities	KPI:514GGP	Report on the SPU activity quarterly	Approved SPU Annual Activity Plan by 30 September 2015 and 4 quarterly implementation reports	Four Quarter report were issued	Achieved	Achieved :Report on the SPU activity quarterly was submitted to Mayoral Committee	N/A	N/A
			SPU structures	KPI:515GGP	Number of SPU structures meetings held (1 quarterly meeting per structure each quarter)	4 Meetings Held (1 quarterly meeting per structure)	New Indicator	Achieved	Achieved :4 Meeting were held with external structures	N/A	N/A



# MAKANA

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Makana Local Municipality  
Annual Financial Statements for  
the year ended 30 June 2017

## General Information

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**Legal form of entity** EC 104 - Local Municipality.

The municipality's operations are governed by the Municipal Finance Management Act 56 of 2003, Municipal Structure Act 117 of 1998, Municipal Systems Act 32 of 2000; and various other acts and regulations

**Nature of business and principal activities** Local Government

**Mayoral committee**

Executive Mayor Cllr N Gaga

Speaker Cllr Y Vara

MPAC Chairperson Cllr R Xonxa

Cllr T Bruintjies

Cllr C Clark

Cllr B Fargher

Cllr M Fatyi

Cllr Cllr T Gaushe

Cllr M Gojela

Cllr D Holm

Cllr B Jackson

Cllr M Khubalo

Cllr E Louw

Cllr X Madyo

Cllr N Masoma

Cllr P Mathyumza

# **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

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
HDF	Housing Development Fund
IAS	International Accounting Standards
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)

## **Accounting Officer's Responsibilities and Approval**

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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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and were given unrestricted access to all financial records and related data. The 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 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 municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, he 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 municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across. The financial statements which have been prepared on the going concern basis, were signed on municipality's behalf by the accounting officer. While operating risk cannot be fully eliminated, the municipality 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 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 municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.



# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

	Notes	2017 R	2016 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories - General	2	6,863,354	7,974,662
Receivables from exchange transactions	4	46,135,276	35,760,438
Receivables from non-exchange transactions	5	25,685,451	6,935,169
Cash and cash equivalents	6	<u>12,943,044</u>	<u>5,263,670</u>
		<b>91,627,125</b>	<b>55,933,939</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	7	816,227,555	877,197,928
Intangible assets	8	571,076	430,036
Heritage assets	9	33,364,868	33,364,868
		<u>184,590,291</u>	<u>192,008,634</u>
Investment property	10	<u>1,034,753,790</u>	<u>1,103,001,466</u>
Non-Current Assets		1,034,753,790	1,103,001,466
Current Assets		91,627,125	55,933,939
<b>Total Assets</b>		<b>1,126,380,915</b>	<b>1,158,935,405</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Consumer deposits	11	2,956,701	2,938,657
Payables from exchange transactions	12	184,743,502	165,416,733
Payables from non-exchange transactions	13	24,473,139	16,054,819
Unspent conditional grants and receipts	14	12,701,549	4,017,068
VAT payable	15	14,292,288	4,982,050
Long term loan	16	1,084,861	526,025
Employee benefit obligation	17	<u>2,679,520</u>	<u>3,276,820</u>
		<b>242,931,560</b>	<b>197,212,172</b>
<b>Non-Current Liabilities</b>			
Long term loan	16	54,747,514	55,832,375
Employee benefit obligation	17	74,370,093	64,659,889
Provisions	18	<u>3,894,381</u>	<u>3,093,432</u>
		<b>133,011,988</b>	<b>123,585,696</b>
Non-Current Liabilities		133,011,988	123,585,696
Current Liabilities		242,931,560	197,212,172
<b>Total Liabilities</b>		<b>375,943,548</b>	<b>320,797,868</b>
<b>Net Assets</b>			
Assets		1,126,380,915	1,158,935,405
Liabilities		(375,943,548)	(320,797,868)
<b>Net Assets</b>		<b>750,437,367</b>	<b>838,137,537</b>

**Net Assets**

## Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Deficit for the year		(51,884,118)	(79,483,448)
Total revenue from non-exchange transactions		177,363,300	170,231,988
		267,858,099	236,522,395
		177,363,300	170,231,988
<b>Total revenue</b>	<b>25</b>	<b>445,221,399</b>	<b>406,754,383</b>
<b>Expenditure</b>			
Employee related costs	26	(179,240,829)	(144,119,649)
Remuneration of councillors	27	(9,636,574)	(9,421,559)
Depreciation and amortisation	28	(41,386,983)	(27,534,559)
Impairment loss		(30,946,351)	-
Finance costs	29	(17,031,275)	(17,936,925)
Lease rentals on operating lease		(2,051,496)	(7,404,883)
Impairment reversal / (Debt Impairment)	30	531,585	(72,480,292)
Repairs and maintenance	31	(9,715,670)	(44,471,339)
Bulk purchases	32	(116,134,896)	(95,360,918)
Contracted services	33	(35,553,113)	(8,466,107)
Grants and Subsidies	34	(22,330,809)	(2,966,761)
General Expenses	35	(42,735,859)	(62,837,287)
<b>Total expenditure</b>		<b>(506,232,270)</b>	<b>(493,000,279)</b>
<b>Total revenue</b>		<b>445,221,399</b>	<b>406,754,383</b>
<b>Total expenditure</b>		<b>(506,232,270)</b>	<b>(493,000,279)</b>
<b>Operating deficit</b>		<b>(61,010,871)</b>	<b>(86,245,896)</b>
Loss on disposal of assets and liabilities		(1,268,147)	(107,881)
Actuarial gains/losses	17	10,394,900	6,870,329
		<b>9,126,753</b>	<b>6,762,448</b>

## Statement of Changes in Net Assets as at 30 June 2017

	Accumulated Total net surplus assets	
	R	R
Opening balance as previously reported	897,978,944	897,978,944
Adjustments		
Correction of errors	25,428,315	25,428,315
<b>Balance at 01 July 2015 as restated*</b>	<b>923,407,259</b>	<b>923,407,259</b>
Changes in net assets		

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement as at 30 June 2017

	Note(s)	2017 R	2016 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from customers		301,236,491	223,835,670
Grants		114,305,115	116,733,364
Interest income		<u>1,086,258</u>	<u>999,800</u>
		416,627,864	341,568,834
<b>Payments</b>			
Employee costs		(188,877,403)	(153,541,208)
Suppliers		<u>(206,950,071)</u>	<u>(174,630,453)</u>
		(395,827,474)	(328,171,661)
Total receipts		416,627,864	341,568,834
Total payments		(395,827,474)	(328,171,661)
<b>Net cash flows from (used in) operating activities</b>	37	<u>20,800,390</u>	<u>13,397,173</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(12,244,991)	(31,082,609)
Purchase of Intangible Assets	10	<u>(350,000)</u>	<u>(31,082,609)</u>
<b>Net cash flows used in investing activities</b>		<u>(12,594,991)</u>	<u>(31,082,609)</u>
<b>Cash flows from financing activities</b>			
(Repayment)/Proceeds from long term loan		(526,025)	1,290,122
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>7,679,374</u>	<u>(16,395,314)</u>
Cash and cash equivalents at the beginning of the year		<u>5,263,670</u>	<u>21,658,984</u>
<b>Cash and cash equivalents at the end of the year</b>	6	<u>12,943,044</u>	<u>5,263,670</u>

### Budget on Accrual Basis

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

### Statement of Financial Performance

#### Revenue

#### Revenue from exchange transactions

Service charges	306,690,000	(63,981,000)	242,709,000	233,668,688	(9,040,312)	Note 44
Rental of facilities and equipment	811,000	-	811,000	1,279,556	468,556	Note 44



# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Transfers recognized - capital	170,043,000	(126,875,000)	43,168,000	(27,884,476)	(71,052,476)	Note 44
Actuarial gains/losses	-	-	-	10,394,900	10,394,900	Note 44
	170,043,000	(126,875,000)	43,168,000	(17,489,576)	(60,657,576)	
	-	-	-	(61,010,871)	(61,010,871)	
	170,043,000	(126,875,000)	43,168,000	(17,489,576)	(60,657,576)	
<b>Deficit for the year</b>	<b>170,043,000</b>	<b>(126,875,000)</b>	<b>43,168,000</b>	<b>(78,500,447)</b>	<b>(121,668,447)</b>	
Surplus before taxation	170,043,000	(126,875,000)	43,168,000	(78,500,447)	(121,668,447)	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>170,043,000</b>	<b>(126,875,000)</b>	<b>43,168,000</b>	<b>(78,500,447)</b>	<b>(121,668,447)</b>	

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Provisions	49,307,000	-	49,307,000	3,894,381	(45,412,619)	Note 44
	<b>109,841,000</b>	-	<b>109,841,000</b>	<b>133,011,988</b>	<b>23,170,988</b>	
	281,004,000	-	281,004,000	242,931,560	(38,072,440)	
	109,841,000	-	109,841,000	133,011,988	23,170,988	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>390,845,000</b>	-	<b>390,845,000</b>	<b>375,943,548</b>	<b>(14,901,452)</b>	
Assets	1,199,639,000	-	1,199,639,000	1,126,380,915	(73,258,085)	

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Liabilities	(390,845,000)	-	(390,845,000)	(375,943,548)	14,901,452	
<b>Net Assets</b>	<b>808,794,000</b>	-	<b>808,794,000</b>	<b>750,437,367</b>	<b>(58,356,633)</b>	
<b>Net Assets</b>						
<b>Reserves</b>						
Reserves	5,749,000	-	5,749,000	-	(5,749,000)	Note 44
Accumulated surplus	803,045,000	-	803,045,000	750,437,367	(52,607,633)	Note 44
<b>Total Net Assets</b>	<b>808,794,000</b>	-	<b>808,794,000</b>	<b>750,437,367</b>	<b>(58,356,633)</b>	

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies as at 30 June 2017

Net increase/(decrease) in cash and cash equivalents	8,521,000	1,500,000	10,021,000	7,679,374	(2,341,626)
Cash and cash equivalents at the beginning of the year	2,609,000	-	2,609,000	5,263,670	2,654,670
Cash and cash equivalents at the end of the year	11,130,000	1,500,000	12,630,000	12,943,044	313,044

### 1. Presentation of Annual Financial Statements

The 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 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 financial statements, are disclosed below

#### Standards

##### Standards Issued and Effective

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Accounting for Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment Properties
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-Cash Generating Assets
GRAP 23	Revenue from non-exchange transactions
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits (Approved, early adoption)
GRAP 26	Impairment of Cash-Generating Assets
GRAP 27	(as revised 2012): Agriculture (Replaces GRAP 101)
GRAP 31	Intangible Assets (replace GRAP GRAP 102)
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfer of Functions Between Entities Under Common Control
GRAP 106	Transfer of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

GRAP 20	Related Party Disclosures
GRAP 32	Service Concession Arrangements: Grantor



# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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## Accounting Policies as at 30 June 2017

liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic factors.

### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

### 1.4 Consistency of presentation

The presentation and classification of items in the financial statements is the same as in the previous reporting period.

### 1.5 Offsetting

Assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by a standard of GRAP.

### 1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Subsequently recognised at cost model.

### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	60years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.7 Property, plant and equipment

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies as at 30 June 2017

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.

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.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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

The Municipality used 20% for residual value on the motor vehicles.

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

Item	Depreciation method	Average useful life
Land	Straight line	Land is not depreciated
<b>INFRASTRUCTURE ASSETS</b>	<b>Straight line</b>	
• Aviation 20-50		
• Electricity 5-50		
• Refuse 10-100		
• Roads 20-120		
• Storm water 10-50		
• Water supply 10-80		
• Sanitation 10-60		
• Transport 10-80		
<b>COMMUNITY ASSETS</b>	<b>Straight line</b>	
• Buses 10-30		
• Cemeteries 30 years		
• Community Halls 30 years		

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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## Accounting Policies as at 30 June 2017

these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.8 Intangible assets

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 municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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 municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when: • it is technically feasible to complete the asset so that it will be available for use or sale.

- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development 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.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	5 years

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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## Accounting Policies as at 30 June 2017

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

### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

### Derecognition

The municipality 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 included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.10 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.

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. 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 and points 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), an 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 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.

# **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

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## **Accounting Policies as at 30 June 2017**

- Financial instruments at cost.

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

### **Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

### **Gains and losses**

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 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 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 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.

#### **Financial assets measured at cost:**

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### **Derecognition**

#### **Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the 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 entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### **Financial liabilities**



# **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

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## **Accounting Policies as at 30 June 2017**

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in 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.

### **1.12 Inventories - General**

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

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

Inventories - General 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 municipality incurs to acquire the asset on the reporting date.

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

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

When inventories - general are sold, the carrying amounts of those inventories - general 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 - general to net realisable value or current replacement cost and all losses of inventories - general 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 - general, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories general recognised as an expense in the period in which the reversal occurs.

### **1.13 Impairment of 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.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

# **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

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## **Accounting Policies as at 30 June 2017**

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

### **Reversal of impairment loss**

The municipality 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.

### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

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## **Accounting Policies as at 30 June 2017**

measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

### **Recognition and measurement of non-cash generating units**

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 municipality 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 municipality 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 municipality 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.

### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.15 Employee benefits**

Employee benefits are all forms of consideration given by the Municipality in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- the municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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## Accounting Policies as at 30 June 2017

defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The Municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The Municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts: •

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately; • past service cost, which shall all be recognised immediately; and • the effect of any curtailments or settlements.

### 1.16 Provisions

# **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

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## **Accounting Policies as at 30 June 2017**

money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

The municipality is liable to account for VAT at standard rate (14%) in terms of section 7(1) of the vat act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 or is out of scope for VAT purposes. The timing of payments to or from SARS is the last day of each of twelve months financial year.

### **1.18 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, other than increases relating to contributions from owners. 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.

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 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 municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **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 municipality;
- 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 is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### **Interest**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and



# **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

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## **Accounting Policies as at 30 June 2017**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time apportionment basis with reference to the principle amount receivable and effective interest rate applicable. Rebates are granted to certain categories of ratepayers and are deducted from the revenue.

### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets (revenue) arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

### **Gifts and donations, including goods in-kind**

Donations are recognised on a cash basis or where the donation is in the form of, property, plant and equipment, when such items are available for use.

### **1.20 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality 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.

### **1.21 Investment income**

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

### **1.22 Borrowing costs**

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

The alternative treatment, as allowed by the Borrowing Costs standard (GRAP 5), to expense Borrowing Costs has been selected by the Municipality.

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

### **1.23 Segment information**

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

### **1.24 Related parties**

# **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

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## **Accounting Policies as at 30 June 2017**

- Spending of an allocation received from another sphere of Government, municipality, or organ of state otherwise than in accordance with any conditions of the allocation,
- A grant by the municipality otherwise than in accordance with the MFMA.

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not certified as irrecoverable by the council it is treated as an asset until it is recoverable or written off as irrecoverable.

### **1.29 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 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.

### **1.30 Irregular expenditure**

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

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 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.

### **1.31 Budget information**

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

General purpose financial reporting by municipality 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 in the annual financial statement.

### **1.32 Contingent assets and contingent liabilities**

The municipality does not recognise contingent liabilities or contingent assets, but disclose them.

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

2017  
R

2016  
R

## Notes to the Annual Financial Statements as at 30 June 2017

### 2. INVENTORIES - GENERAL

Inventories 1	44,330	75,888
Land	4,017,500	3,545,000
Consumable stores	1,165,610	2,108,429
Electricity	<u>1,635,914</u>	<u>2,245,345</u>
	<u>6,863,354</u>	<u>7,974,662</u>

Inventories are held for own use and measured at the lower of Cost and Net Replacement Value

No inventory is pledged as security.

Land is made out of land parcels to be disposed off.

Consumable stores includes; protective clothing, toilet papers, maintenance items, refuse bags and other items.

Electricity includes; electricity fittings, bulbs, cables.

#### 2.1 Inventories recognised as an expense during the year

Cleaning and materials	60,211	142,897
Consumables	-	4,270
Materials and stores	10,401,495	5,706,866
Printing and stationery	14,772	55,248
Protective clothing	107,106	374,592
Refuse bags	292,795	252,051
Uniforms	<u>82,331</u>	<u>71,965</u>
	<u>10,958,710</u>	<u>6,607,889</u>

### 3. INVENTORY - WATER

Water	<u>44,330</u>	<u>75,888</u>
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Water includes stock in reservoirs and reticulation.

### 4. RECEIVABLES FROM EXCHANGE TRANSACTIONS

#### Gross balances

Electricity	40,447,105	60,303,372
Refuse	21,097,161	28,680,505
Sewerage	39,083,795	54,675,748
Water	117,029,755	132,430,647
Other	<u>116,102,691</u>	<u>14,638,583</u>
	<u>333,760,507</u>	<u>290,728,855</u>

#### Less: Allowance for impairment

Electricity	(25,885,939)	(41,017,953)
Refuse	(3,938,415)	(27,562,817)
Sewerage	(37,668,159)	(52,695,081)
Water	(113,702,446)	(125,569,368)
	<u>(108,430,272)</u>	<u>(8,123,198)</u>
Other	<u>(287,625,231)</u>	<u>(254,968,417)</u>

#### Net balance

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

	2017 R	2016 R
<b>Notes to the Annual Financial Statements as at 30 June 2017</b>		
Reconciliation of allowance for impairment		
Balance at beginning of the year (254,968,417) (238,847,415) Contributions to allowance (98,307,074) (58,408,959)		
	65,650,260	42,287,957
Debt impairment written off against allowance	<u>(287,625,231)</u>	<u>(254,968,417)</u>
<b>5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
Sundry Deposits	55,330	52,403
Consumer debtors - Rates	37,705,104	52,146,147
Impairment on assessment rates debtors	<u>(12,074,983)</u>	<u>(45,263,381)</u>
	<u>25,685,451</u>	<u>6,935,169</u>
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(58,755,894)	(45,263,381)
Provision for impairment	46,680,911	(14,081,333)
Amounts written off as uncollectible	-	588,820
	<u>(12,074,983)</u>	<u>(58,755,894)</u>
<b>6. CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents consist of:		
Current Investments	8,905,616	1,390,426
Bank Accounts	<u>4,037,428</u>	<u>3,873,244</u>
	<u>12,943,044</u>	<u>5,263,670</u>

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments.

## Current Investment Deposits

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 4,5 % to 7,50 % (2016: 4,25 % to 4,50 %) per annum.

Call Deposits are investments with no maturity period.

The municipality does not have any overdrawn current account facilities with its bankers and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements as at 30 June 2017

First National Bank - Current Account - 6263312966321	31,851	-	-	31,851	-	-
Nedbank - call Account 145027119992	25,213	-	-	25,213	-	-
Nedbank - Call Account 145027119998	15,542	-	-	15,542	-	-
GBS Mtual - Fixed Deposit 02250604335	3,000	3,000	-	3,000	3,000	-
GBS Mtual - Fixed Deposit 02250604357	20,000	20,000	-	20,000	20,000	-
GBS Mtual - Fixed Deposit 02250604380	967	1,034	-	967	1,034	-

	2017			2016		
	R			R		
GBS Mtual - Fixed Deposit 02250604391	5,000	5,000	-	5,000	5,000	-
GBS Mtual - Fixed Deposit 02250604438	4,000	4,000	-	4,000	4,000	-
GBS Mtual - Fixed Deposit 02250604472	4,500	4,500	-	4,500	4,500	-
GBS Mtual - Fixed Deposit 02250604494	3,600	3,600	-	3,600	3,600	-
GBS Mtual - Fixed Deposit 02250604531	4,000	4,000	-	4,000	4,000	-
GBS Mtual - Fixed Deposit 02250604553	6,700	6,700	-	6,700	6,700	-
GBS Mtual - Fixed Deposit 02250604564	5,400	5,400	-	5,400	5,400	-
GBS Mtual - Fixed Deposit 02250604597	3,200	3,200	-	3,200	3,200	-
GBS Mtual - Fixed Deposit 027680101015	2,000	2,000	-	2,000	2,000	-
GBS Mtual - Fixed Deposit 03059704019	14,000	14,000	-	14,000	14,000	-
GBS Mtual - Fixed Deposit - 03059704380	1,811,905	-	-	1,811,905	-	-
<b>Total</b>	<b>12,629,866</b>	<b>5,265,738</b>	<b>21,651,992</b>	<b>12,943,044</b>	<b>5,263,670</b>	<b>21,651,992</b>

### 7. PROPERTY, PLANT AND EQUIPMENT



# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements as at 30 June 2017

Figures in Rand

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

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	76,365,411	89,700	-	-	-	-	76,455,111
Buildings	100,742,723	108,539	-	-	(3,797,757)	-	97,053,505
Infrastructure	471,102,156	-	-	117,832,032	(28,676,519)	(19,781,506)	540,476,165
Community	39,299,266	-	-	34,189,786	(5,207,134)	(11,164,845)	57,117,073
Other property, plant and equipment	23,301,129	93,971	(1,311,899)	-	(2,065,453)	-	20,017,748
Work in progress Infrastructure	160,165,978	10,949,906	-	(152,023,180)	-	-	19,092,704
Work in progress Community	4,432,073	-	-	(157,542)	-	-	4,274,531
Landfill site	1,789,190	-	-	158,904	(207,376)	-	1,740,718
	<b>877,197,928</b>	<b>11,242,116</b>	<b>(1,311,899)</b>	<b>-</b>	<b>(39,954,239)</b>	<b>(30,946,351)</b>	<b>816,227,555</b>

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

	Opening balance	Additions	Disposals	Depreciation	Total
Land	76,365,411	-	-	-	76,365,411
Buildings	102,803,988	-	-	(2,061,265)	100,742,723
Infrastructure	485,983,814	-	-	(14,881,656)	471,102,158
Community	40,447,244	427,495	-	(1,575,473)	39,299,266
Other property, plant and equipment	22,927,721	3,465,227	(455,044)	(2,636,775)	23,301,129
Work in progress Infrastructure	132,976,091	27,189,887	-	-	160,165,978
Work in progress Community	4,432,073	-	-	-	4,432,073

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements as at 30 June 2017

	2017	2016
	R	R

### 8. INTANGIBLE ASSETS

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,487,881	(916,805)	571,076	1,137,881	(707,845)	430,036

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	430,036	350,000	(208,960)	571,076

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software	597,039	(167,003)	430,036

Pledged as security

No intangible assets are pledged as security.

### 9. HERITAGE ASSETS

	2017			2016		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical Assets	34,608,200	(1,243,332)	33,364,868	34,608,200	(1,243,332)	33,364,868

#### Reconciliation of heritage assets 2017

	Opening balance	Total balance
Historical Assets	33,364,868	33,364,868

#### Reconciliation of heritage assets 2016

	Opening balance	Total
Historical Assets	33,364,868	33,364,868

## Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements as at 30 June 2017

Payments received in advance	139,388	135,659
Retentions	1,667,779	1,553,824
Other creditors	20,510,568	3,191,555
Debtors with Credit Balances	-	29,675,998
	<u>184,743,502</u>	<u>165,416,733</u>

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

#### 13. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Bonus Provision	5,381,855	4,453,052
Leave Provision	18,720,158	11,601,767
Refundable deposits	<u>371,126</u>	<u>-</u>
	<u>24,473,139</u>	<u>16,054,819</u>

Bonus provision - staff bonuses accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Leave provision - staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Other creditors is made out of third party payments outstanding at year end.

Refundable deposits is made out of third party payments outstanding at year end.

#### 14. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Public Health Subsidy	1,403,509	-
Municipal Infrastructure Grant	929,784	-
Expanded Public Works program (EPWP)	4,036	141,068
Department of Minerals & Energy(DME)	3,758,961	-
Provincial : Other Grants	2,729,259	-
Disaster Grant	<u>3,876,000</u>	<u>3,876,000</u>
	<u>12,701,549</u>	<u>4,017,068</u>

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

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

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

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

#### 15. VAT PAYABLE

Vat Control	5,620,656	2,047,492
Vat Suspense	<u>8,671,632</u>	<u>2,934,558</u>
	<u>14,292,288</u>	<u>4,982,050</u>

#### 16. LONG TERM LOAN

Designated at fair value

Bank loan	55,832,375	56,358,400
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The municipality has restructured its loan with the Development Bank of south Africa effectively on the 30 September 2015. The borrowed amount amounts to R56 358 399 with an interest rate of 10.5% p.a for a period of 20 years with the first installment which started on 31 January 2017.

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

	2017 R	2016 R
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## Notes to the Annual Financial Statements as at 30 June 2017

### 17. EMPLOYEE BENEFIT OBLIGATIONS

#### Defined benefit plan

The amounts recognised in the statement of financial position are as follows:

#### Carrying Value

Post retirement benefits: medical aid	70,373,179	61,362,940
Long service awards	<u>6,676,434</u>	<u>6,573,769</u>
	<b>77,049,613</b>	<b>67,936,709</b>
Current portion of liability	2,679,520	3,276,820
Non-current portion of liability	<u>74,370,093</u>	<u>64,659,889</u>
	<b>77,049,613</b>	<b>67,936,709</b>

#### Post retirement health care benefit liability

The municipality operates an unfunded defined benefit plan for qualifying employees, and offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme. The accrued unfunded liability at 30 June 2016 is based on the municipality's accrued contributions-based liability and takes no account of any potential contingent Cross-subsidy liability. The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation report was performed on 30 June 2016 by Arch Actuarial Consulting using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service (employee) members	408	386
In-service (employee) non-members	268	320
Continuation (retiree and widow) members	<u>66</u>	<u>61</u>
	<b>742</b>	<b>767</b>

The liability in respect of past service has been estimated as follow:

In-service (employee) members	32,393,834	29,168,920
In-service (employee) non-members	6,223,886	6,951,484
Continuation (retiree and widow) members	<u>31,755,459</u>	<u>25,242,536</u>
	<b>70,373,179</b>	<b>61,362,940</b>

The municipality makes monthly contributions for health-care arrangements to the following Medical Aid Schemes

Bonitas  
Samwumed  
Keyhealth  
Hosmed  
LA Health

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	61,362,940	61,612,536
Net expense recognised in the statement of financial performance	<u>7,575,320</u>	<u>(249,596)</u>
	<b>68,938,260</b>	<b>61,362,940</b>

The amounts recognised in the statement of financial performance are as follows

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

	2017 R	2016 R
--	-----------	-----------

## Notes to the Annual Financial Statements as at 30 June 2017

The amount recognised in the Statement of Financial Position are as follows:

The total economic entity contribution to such schemes	6,592,956	6,584,080
The amount recognised as an expense for defined contribution plans is	102,665	712,144

Net expense recognised in the statement of financial performance

Current Service Costs	1,038,426	865,251
Interest costs	499,158	426,026
Actuarial Gain	(1,434,919)	202,761
Benefits paid	-	(781,894)
	<u>102,665</u>	<u>712,144</u>

### 18. PROVISIONS

Reconciliation of provisions - 2017

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	3,093,432	800,949	3,894,381

Reconciliation of provisions - 2016

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	2,457,213	636,219	3,093,432

The Municipality has an obligation to restore three landfill sites situated in Grahamstown, Alicedale and Riebeeck east.

The landfill sites are currently licensed and used for general waste disposal ( non-hazardous) purpose.

Assumptions and estimates are based on an operational life expectancy of 30 years and the average interest rate used is 5-7%.

The valuations were done by Enzokuhle Enterprise based in East London.

### 19. SERVICE CHARGES

Service charges	46,969	31,397
Sale of electricity	130,626,866	135,221,603
Sale of water	66,686,740	40,778,025
Sewerage and sanitation charges	24,371,763	19,286,627
Refuse removal	11,936,550	7,225,354
	<u>233,668,688</u>	<u>202,543,006</u>

### 20. RENTAL OF FACILITIES AND EQUIPMENT

Premises		
Encroachments	1,144,102	1,012,733
Venue hire	95,557	133,603
	<u>1,239,659</u>	<u>1,146,336</u>

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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## Notes to the Annual Financial Statements as at 30 June 2017

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2018.

### 24. GOVERNMENT GRANTS AND SUBSIDIES

#### Operating grants

Equitable share	77,008,000	75,454,000
Municipal System Improvement Grant (MSIG)	-	930,000
Department Sport, Recreation, Arts & Culture	3,508,772	3,985,000
Municipal Infrastructure Grant (MIG)	92,430	-
Finance Management Grant (FMG)	1,810,000	2,021,992
Other Government: LG Seta	195,137	165,600
Fire Subsidy grant	1,019,507	592,000
Expanded Public Works Programme (EPWP)	1,000,000	1,137,137
Public Health Subsidy	1,786,793	1,808,502
	<u>86,420,639</u>	<u>86,094,231</u>

#### Capital grants

DWA	3,962,437	538,118
Municipal Infrastructure Grant (MIG)	23,681,000	30,101,015
INEP GRANT	241,039	-
	<u>27,884,476</u>	<u>30,639,133</u>
	<u>114,305,115</u>	<u>116,733,364</u>

#### Disaster

Included in above are the following grants and subsidies received:

3,876,000 3,876,000

#### Municipal Infrastructure Grant - Capital

Current-year receipts	24,610,784	30,101,015
Conditions met - transferred to revenue	(23,681,000)	(30,101,015)
	<u>929,784</u>	<u>-</u>

The municipal Infrastructure Grant (MIG) was allocated for construction of Roads, basic sewere and water infrastructure as part of the life of poor households, micro enterprise and social institution, to provide new infrastructure, rehabilitation and upgrading of municipal infrastructure. The municipality's MIG funds are deposited to Sarah Baartman District Municipality and the municipality receives a portion of expenditure to be incurred upon submission of valid invoices to Sarah Baartman. Unspent Grant at year end as well as roll over application is done by the district municipality and will be disbursed to the municipality upon submission of valid tax invoices.

#### Finance Management Grant

Balance unspent at beginning of year	-	346,992
Current-year receipts	1,810,000	1,675,000
Conditions met - transferred to revenue	(1,810,000)	(2,021,992)
	<u>-</u>	<u>-</u>



## Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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### Notes to the Annual Financial Statements as at 30 June 2017

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems

#### Expanded Public Works program

Balance unspent at beginning of year	141,068	276,205
Current-year receipts	1,000,000	1,002,000
Conditions met - transferred to revenue	(1,137,032)	(1,137,137)
	<u>4,036</u>	<u>141,068</u>

The Expanded Public works Program was allocated to the municipality for environmental and water infrastructure projects.

#### Other Grants: LG Seta

Current-year receipts	195,137	165,600
Conditions met - transferred to revenue	(195,137)	(165,600)
	<u>-</u>	<u>-</u>

#### Department of Sport, Recreation, Arts & Culture

Current-year receipts	3,508,772	3,985,000
Conditions met - transferred to revenue	(3,508,772)	(3,985,000)
	<u>-</u>	<u>-</u>

This Grant was allocated to the municipality for purpose of maintaining and building libraries in the community Department of Water Affairs

Current-year receipts	3,962,437	538,118
Conditions met - transferred to revenue	(3,962,437)	(538,118)
	<u>-</u>	<u>-</u>

This Grant was transferred to the municipality for the operation and maintenance of sewerage and water schemes transferred from DWA to the municipality and refurbishment of water infrastructure. INEP

Current-year receipts	4,000,000	-
Conditions met - transferred to revenue	(241,039)	-
	<u>3,758,961</u>	<u>-</u>

This Grant was allocated to the municipality for electricity infrastructure

#### Fire Subsidy Grant

Current-year receipts	1,019,507	592,000
Conditions met - transferred to revenue	(1,019,507)	(592,000)
	<u>-</u>	<u>-</u>

The subsidy was allocated by the District to the Municipality for fire services operations.

#### Public Health Subsidy

Current-year receipts	1,786,793	1,808,502
Conditions met - transferred to revenue	(1,786,793)	(1,808,502)
	<u>-</u>	<u>-</u>

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

	2017 R	2016 R
<b>Notes to the Annual Financial Statements as at 30 June 2017</b>	<b>179,240,829</b>	<b>144,119,649</b>
Acting Municipal Manager: Various		
Earnings	327,930	297,700
Chief Financial Officer: NF Siwahla		
Earnings	625,081	91,120
Allowance	343,562	46,853
Company contributions	11,038	6,600
	<b>979,681</b>	<b>144,573</b>
Acting Chief Financial Officer: Colleen Mani		
Company contributions	32,691	98,585
Acting allowance	-	117,058
	<b>32,691</b>	<b>215,643</b>
Director: Community & Social Services: M Planga		
Earnings	828,617	786,194
Allowance	178,901	157,131
Company contributions	13,052	-
	<b>1,020,570</b>	<b>943,325</b>
Director: Corporate Services: M Madlavu		
Earnings	90,679	550,638
Allowance	-	108,225
	1,056	
Company contributions	<b>91,735</b>	<b>658,863</b>
Acting Director: Corporate Services: Various		
Earnings	348,481	207,676
Director: Local Economic Development: MJ Meiring		
Earnings	789,208	754,030
Allowance	180,306	152,530
Company contributions	12,835	-
	<b>982,349</b>	<b>906,560</b>
Director: Technical & Infrastructure Services: D Mlenzane		
Earnings	748,647	339,440
Allowance	158,094	8,760
Company contributions	10,567	-
		163,403
Acting allowance	<b>917,308</b>	<b>511,603</b>

## 27. REMUNERATION OF COUNCILLORS

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

	2017 R	2016 R
<b>Notes to the Annual Financial Statements as at 30 June 2017</b>		
	<b>22,330,809</b>	<b>2,966,761</b>
Grants paid to ME's	-	-
Other subsidies	22,330,809	2,966,761
<b>35. GENERAL EXPENSES</b>		
Audit Fees	3,919,406	4,470,205
Administration Charges	1,841,942	3,610,396
Advertising	709,725	984,150
Audit Committee	94,432	126,500
Bank charges	273,796	616,661
Chemicals	3,347	12,286
Cleaning and materials	60,211	142,897
Commission paid	1,295,151	1,820,909
Complaints: water and electricity	85,160	129,532
Conferences and seminars	1,063,803	705,057
Consumable Tools	-	4,270
Council events and projects	793,474	3,345,745
Electricity and Water	7,400,494	11,768,027
Electricity connection	13,326	2,471,408
Fuel and oil	293,605	4,832,588
Grants and Subsidies	949,132	1,152,584
Insurance	599,022	1,082,838
Internal Audit Fees	-	54,906
Interviews and Relocation Expenses	228,545	433,165
Legal Fees	2,577,188	7,552,486
License Cards	567,018	587,825
Materials and stores	10,401,495	5,706,866
Other expenses	3,414,600	1,557,503
Postage and courier	968,508	981,697
Printing and stationery	14,772	55,248
Protective clothing	107,106	374,592
Refuse bags	292,795	252,051
Security (Guarding of municipal property)	206,639	2,529,710
Subsistence and Traveling	265,139	307,152
Telephone and fax	3,493,487	3,012,475
Training	719,910	751,691
Uniforms	82,331	71,965
Valuation expenses	-	1,331,902
	<b>42,735,859</b>	<b>62,837,287</b>
<b>36. AUDITORS' REMUNERATION</b>		
Audit Fees	3,919,406	4,470,205
<b>37. CASH GENERATED FROM OPERATIONS</b>		
Deficit	(51,884,118)	(79,483,448)
Adjustments for:		
Depreciation and amortisation	41,386,983	21,639,524
Loss on disposal of assets and liabilities	1,311,899	455,044
Impairment Loss	30,946,351	-
Impairment reversal / (Debt impairment)	(531,585)	72,490,292

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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## Notes to the Annual Financial Statements as at 30 June 2017

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

### Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances. The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made. Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable. The municipality is not exposed to credit interest rate risk as the municipality has no borrowings. The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

### Credit risk

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor (impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

	2017 R	2016 R
<b>Notes to the Annual Financial Statements as at 30 June 2017</b>		
Details of irregular expenditure – current year		
Irregular expenditure for the current year was due to the SCM manager not sitting in the BID Adjudication Committee		132,706,938
Details of irregular expenditure - prior year		
Irregular expenditure for the prior year was due to Non-compliance to the SCM regulations		128,255,390
		<b>128,255,390</b>

## 43. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

### Audit fees

Opening balance	11,293,539	12,659,656
Current year subscription / fee	3,919,406	4,470,205
Amount paid - current year	<u>(3,621,715)</u>	<u>(4,470,205)</u>
	<b>11,591,230</b>	<b>12,659,656</b>

Balanced unpaid (included in Creditors). In terms of section 65 (e) and (f) of the MFMA the municipality must pay all money owing within 30 days of receiving the relevant invoice or statement and also comply with all relevant Statutory commitments. The municipality and the Office of Auditor General have entered in a payment agreement plan.

### PAYE and UIF

Opening balance	1,358,156	-
Current year subscription / fee	18,383,598	31,556,060
Amount paid - current year	<u>(18,271,031)</u>	<u>(30,197,904)</u>
	<b>1,470,723</b>	<b>1,358,156</b>

### VAT

VAT suspense	8,671,632	2,934,558
VAT payable	<u>5,620,656</u>	<u>2,047,492</u>
	<b>14,292,288</b>	<b>4,982,050</b>

VAT returns have been submitted by the due date throughout the year. VAT is payable on receipts basis. Only when payment is received from debtors, VAT is paid over to SARS. No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies.

### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days days R	Total R
Councillor M/VF Nhanha	13,560	-	13,560
Councillor AJ Meyer	4,397	-	4,397
Councillor MJ/L Qotoyi	3,933	-	3,933

# **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

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## **Notes to the Annual Financial Statements as at 30 June 2017**

Employee costs increases due to excessive overtime and understated of company contribution.

Bad debts written off – Actual increased due to data cleansing and settlement agreements

Transfers and Subsidies – Budget was overstated and also during the review of indigent register the municipality realised that most of the consumer we no longer indigent.

Repairs & Maintenances – During budget process the municipality didn't make a separate provision for this line item, budget was grouped under general expenses.

Bulk Purchases – Due to long outstanding Eskom account, incurred expenditure was more.

Contracted Services – Expenditure increases due to extension of contracted services.

Operating Lease assets – No provision were made.

General Expenses – Under expenditure is due to consolidation of budget for repairs & maintenance and agency fees .

Transfers on recognised - capital – Expenditure is more than anticipated due to litigation and long outstanding debts.

Actuarial gains/ losses – There was no budget provision made.

### **Statement of financial position**

Inventories due to financial constraints and implementation of cost containment measures inventories actual is less than the budget.

Operating Lease assets – No provision were made

Receivables from non- exchange transactions – The budget was overstated due to payment ratio on property rates was higher than anticipated.

Consumer debtors – Budget was overstated due to incorrect billing.

Cash & cash equivalents – Budget provision was overstated .

Intangible assets -The conditions of intangible assets were assessed during the current year under review

Investment property Budget was based on the 2014/2015 annual financial statements. Fair value adjustment and correction of an error where certain properties identified as investment property were transferred to investment property that affected the actuals, therefor the material variance

Payables from exchange transactions -the higher increase in year- end trade payables did not realise as expected. This was unknown at time when the adjustment budget was approved.

Unspent conditional grants and receipts - The was no provision made for the unspent due to the fact the disaster grant was received in 2014/15 financial year and National treasury did not approved the roll-over application.

Provisions - The material variance amount relates to the change in provision for rehabilitation for landfill sites requirements and conditions for the closure of landfill sites.

Differences between the final budget and the adjusted

### **Statement of financial performance**

#### **Service Charges**

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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## Notes to the Annual Financial Statements as at 30 June 2017

Mrs Martin vs Makana, facts unknown.

Telkom SA vs Makana, damage caused to telkom lines. The estimated financial exposure is R56,000.

Nonyeli vs Makana, application for compensation due to demolition of house. The estimated financial exposure is R39,196.

SAMWU vs Makana, MOU, strike.

Brinkman Ndayi McAll vs Makana, professional services rendered. The estimated financial exposure is R662,169.38

Mathew Theijssen vs Makana, civil action based on unlawful arrest. The estimated financial exposure is R200,000.

Makana Unity League vs Makana, application for non compliant dumpsite.

Minister of Rural Development and Land Reform vs Makana. The estimated financial exposure is R200,000.

Zeelie Daniel Petrus vs Makana. The estimated financial exposure is R130,000.

City Square Trading vs Makana.

### 46. RELATED PARTIES

#### Relationships

Accounting officer

Refer to accounting officer's report

Members of key management

Acting Municipal Manager - D Mlenzane  
Chief Financial Officer - NF Siwahla  
Director Community & Social Services - Mandisi Planga  
Director Local Economic Development - Riana Meiring  
Director Technical Services - Daluxolo Mlenzana  
Fabo trading CC

Close family members of persons in the service of the state

Close family members of persons in the service of the state

Makana Development Trust

#### Related party transactions

Purchases from (sales to) related parties

Fabo trading CC

44,998

Makana Development Trust

690,763

### 47. COMPARATIVE FIGURES

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

Certain comparative figures have been reclassified to disclose and provide information that is more relevant to the users of the financial statements and to show each material class of similar items separately in the financial statements. Thus to present items of dissimilar nature or function separately in the financial statements.

- Other creditors of R3 191 555 were disclosed under Payables from non-exchange on the face of the Statement of Financial Position, these have now been disclosed as Payables from exchange on the face of the Statement of Financial Position to comply with GRAP 1 on presentation.

The effects of the reclassification are as follows:

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements as at 30 June 2017

2017	2016
R	R

### 48. PRIOR PERIOD ERRORS

### Statement of Financial Position 2016

	Audited	Prior year	Reclassifying	Restated
Note(s)	R	adjustments	adjustments	R
		R	R	
<b>Assets</b>				
<b>Current Assets</b>				
Inventory General	8,588,929	(690,155)	-	7,898,774
Cash and cash equivalents	5,179,154	84,516	-	5,263,670
VAT receivable	101,377	(101,377)	-	-
<b>Non-Current Assets</b>				
Property, plant and equipment	889,749,926	(12,551,998)	-	877,197,928
Intangible assets	652,536	(222,500)	-	430,036
Investment	184,350,014			192,008,634
	<b>1,074,752,476</b>			<b>1,069,636,598</b>
property		7,658,620	-	
		<b>(5,115,878)</b>	-	
Non-Current Assets	1,074,752,476	(5,115,878)	-	1,069,636,598
Current Assets	13,869,460	(707,016)	-	13,162,444
Non-current assets held for sale (and)	-	-	-	-
(assets of disposal groups)				
<b>Total Assets</b>	<b>1,088,621,936</b>	<b>(5,822,894)</b>	-	<b>1,082,799,042</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Payables from exchange transactions	131,136,539	34,280,194	-	165,416,733
Payables from non-exchange transactions	30,561,505	(14,506,686)	-	16,054,819
VAT suspense	5,136,033	(2,201,475)	-	2,934,558
VAT payable	-	4,982,050	-	4,982,050
	<b>166,834,077</b>	<b>22,554,083</b>	-	<b>189,388,160</b>
<b>Non-Current Liabilities</b>				
Provisions	28,881,524	(25,788,092)	-	3,093,432
Non-Current Liabilities	28,881,524	(25,788,092)	-	3,093,432
Current Liabilities	166,834,077	22,554,083	-	189,388,160
Liabilities of disposal groups	-	-	-	-
<b>Total Liabilities</b>	<b>195,715,601</b>	<b>(3,234,009)</b>	-	<b>192,481,592</b>
<b>Assets</b>	<b>1,088,621,936</b>	<b>(5,822,894)</b>	-	<b>1,082,799,042</b>
<b>Liabilities</b>	<b>(195,715,601)</b>	<b>3,234,009</b>	-	<b>(192,481,592)</b>
<b>Net Assets</b>	<b>892,906,335</b>	<b>(2,588,885)</b>	-	<b>890,317,450</b>



# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements as at 30 June 2017

R

R

### Statement of Financial Performance as at 30 June 2017

	Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Other income		5,587,945	6,028,039	-	11,615,984
		5,587,945	6,028,039	-	11,615,984
		-	-	-	-
<b>Expenditure</b>					
Depreciation and amortisation		(21,753,047)	(5,786,273)	-	(27,534,559)
Finance costs		(19,000,269)	1,063,344	-	(17,936,925)
Lease rentals on operating lease		(7,397,332)	(7,551)	-	(7,404,883)
Repairs and maintenance		(30,494,783)	(13,976,556)	-	(44,471,339)
Contracted services		(8,383,361)	(72,746)	-	(8,456,107)
Grants and subsidies paid		(2,370,270)	(596,491)	-	(2,966,761)
General Expenses		(60,624,862)	(2,212,425)	-	(62,837,287)
<b>Total expenditure</b>		<b>(150,023,924)</b>	<b>(21,588,698)</b>	<b>-</b>	<b>(171,607,861)</b>
		-	-	-	-
Total revenue		5,587,945	6,028,039		406,754,383
Total expenditure		(150,023,924)	(21,588,698)	-	(171,607,861)
Operating surplus		(144,435,979)	(15,560,659)	-	235,146,522
Surplus before taxation		(144,435,979)	(15,560,659)	-	235,146,522
Taxation		-	-	-	-
<b>Surplus for the year</b>		<b>(144,435,979)</b>	<b>(15,560,659)</b>	<b>-</b>	<b>235,146,522</b>

#### General Expenses

General expenditure has been restated due to unrecorded invoices.

#### Other Income

Other income has been restated due to an amount received from Nurcha for sewer reticulation phase 2 stage 3.

#### Depreciation and Impairment

Depreciation has been restated due to correction of property, plant equipment costs.

The Municipality changed the measurement of investment property from fair value model to cost model.

#### Finance costs

Finance costs has been restated due to unrecorded invoices.

#### Repairs and Maintenance

Repairs and maintenance has been restated due to invoices that were not captured as repairs and maintenance

# Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements as at 30 June 2017

	2017 R	2016 R
problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters.		

Electricity 2016	Purchased during the year	Sold during the year	Unaccounted for
units (kWh)	39,945,697	(13,562,649)	26,383,048
Calculated as follows:	%	Distribution	Value
Bulk	60.70 %	63,522,631	38,556,285

Electricity losses occur due to inter alia, the tampering of meters, the incorrect ratios used on the bulk meter, fault meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meter and illegal connections is an ongoing process, with regular action being taken against defaulters.

Water Losses	Lost units	Cost per KL	Value
Unaccounted water losses	497,369	1.06	526,700

Water losses occur due to inter alia, leakages, the tempering of meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of meters to find faulty meters and repair them. The treated water was only recorded from October 2013 hence the outcome as indicated above.

### 51. EVENTS AFTER THE REPORTING DATE

There were no events identified after the reporting date.

### 52. CHANGE IN ESTIMATE

#### Depreciation

During the year, the remaining useful lives of some items of property, plant and equipment were reviewed, resulting in a change in estimate. Below is the effect of the change in estimates:

	2017	Future periods
Increase in depreciation	R 277,242.80	R 277,242.80
Decrease in surplus for the year	R (277,242.80)	R (277,242.80)
Decrease in Property, plant and equipment	R (277,242.80)	R (277,242.80)
Decrease in changes in net assets	R (277,242.80)	R (277,242.80)

### 53. 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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the treasury will continue to provide funding for the ongoing operations for the municipality. The municipality is facing a number of financial risks that negatively impact its ability to sustain its current level of operations in the near future, before taking into account governments' grants. The key financial risks identified include: -an inability to pay creditors within due dates

-negative key financial ratios

-net current liability was realised

## **Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Notes to the Annual Financial Statements as at 30 June 2017**

Figures in Rand

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- The municipality's Equitable Share is committed to pay long outstanding debts
- Budget controls are in place to ensure that over- expenditure is eliminated
- The treasury will continue to provide funding to the municipality in the foreseeable future.
- Management are also investigating alternative funding sources to supplement government funding
- Council of the municipality has approved cost cutting measures in line with circular 82 of the MFMA wherein cost drivers like catering is not done at all, accommodation is only approved by the Accounting Officer,
- The municipality is in a process of implementing two catalyst projects and installation of smart meters.

# Report of the auditor-general to the Eastern Cape Provincial Legislature and Council

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Makana Local Municipality as set out on pages ... to ..., which comprise statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts 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, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Makana Local Municipality as at 30 June 2017, and financial performance and cash flows for the year then ended in accordance with 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 qualified opinion

#### Irregular expenditure

3. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 41 to the financial statements is understated in respect of amounts incurred and identified during the audit process of R25, 5 million. Due to the lack of systems it was impracticable to determine the full extent of the understatement of the irregular expenditure disclosed as R4, 4 million (2016: R38, 3 million) in note 41 to the financial statements.

#### Receivables from exchange transactions

4. The municipality did not account for receivables from exchange transactions in accordance with the requirements of GRAP 104: *Financial instruments* and did not measure debtors when the measurement criteria had been met as debtors were not correctly valued and completely impaired. As a result, receivables from exchange transactions, as disclosed in the statement of financial position and note 3 to the financial statements, are overstated by R43, 0 million (2016: R35, 7 million) and accumulated surplus was overstated by R30,9 million and VAT by R10,2 million .
5. I was unable to obtain sufficient appropriate evidence for receivables from exchange transactions as there was inadequate supporting documentation for debtors with credit balances and the impairment of receivables from exchange transactions. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I

was unable to determine whether any adjustments to receivables from exchange transactions of R 46,1 million (2015-16: R35,8 million) as disclosed in the statement of financial position and as disclosed in note 3 to the financial statements were necessary.

#### Receivables from non-exchange transactions

6. I was unable to obtain sufficient appropriate evidence for receivables from non-exchange transactions as there was inadequate supporting documentation for debtors with credit balances and the impairment of receivables from non-exchange transaction. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions as disclosed in note 4 to the financial statements and stated at R 25, 7 million were necessary.
7. The municipality did not account for receivables from non-exchange transactions in accordance with the requirements of GRAP 104: *Financial Instruments* and did not measure debtors when the measurement criteria were met. Debtors were not recorded at appropriate amounts and were not adequately impaired. As a result, receivables from non-exchange transactions, as disclosed in the statement of financial position and note 4 to the financial statements, are overstated by R12,9 million and accumulated surplus is overstated by the same amount.

#### Revenue from exchange transactions

8. The municipality did not measure revenue at the fair value of the consideration received or receivable in accordance with GRAP 9, *Revenue from exchange transactions*. This was due to management not having adequate systems to recognise revenue and ensure that it was correctly accounted and recorded. Consequently, revenue from exchange transactions disclosed in the statement of financial performance and note 18 is overstated by R41,9 million and receivables from exchange transactions as disclosed in the statement of financial position and note 3 to the financial statements is overstated by the same amount.
9. I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions as other income transaction could not be substantiated by the supporting evidence provided for audit. I was unable to confirm the revenue transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from exchange transactions stated at R9, 9 million in note 21 to the financial statements.

#### Value Added Tax (VAT) Payable

10. Sufficient appropriate audit evidence was not available to support the value added tax (VAT) payable disclosed in note 14 to the financial statements. The municipality does not have the adequate controls and system to maintain the transactions on the Vat suspense account was unable to obtain the required evidence by alternative means. Consequently, I was unable to determine whether any adjustments to VAT payable of R14, 3 million (2015-16: R5, 0 million) disclosed in note 14 to the financial statements were necessary.

## Unauthorised expenditure

11. I was unable to obtain sufficient appropriate audit evidence regarding the unauthorised expenditure as disclosed on note 39 to the financial statements, as the disclosure was presented in the financial statements for auditing purposes without accurate and complete underlying accounting records. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments to the unauthorised expenditure of R356, 6 million as disclosed in note 39 to the financial statements was necessary.

## Cash flow statement

12. The presentation of the cash flow statement was not in accordance with GRAP 2: *Cash flow statements*. Cash flows from operating activities and cash flows from investing activities in the cash flow statement have been incorrectly presented. Consequently, the net decrease in cash and cash equivalents as disclosed on the cash flow statement is understated by R31, 0 million (2016: R159 million).

## Corresponding figures

### Employee related costs

13. I was unable to obtain sufficient appropriate evidence for employee related costs disclosed in the 2015-16 financial statements. During the current year, I was again not provided with information required to substantiate these transactions because the municipality did not have adequate systems to maintain records of employee related costs. I was unable to substantiate these transactions by alternative means. Consequently, I was unable to determine whether any adjustments to the corresponding figure for employee related costs of R161,1 million disclosed in the statement of financial performance and note 27 to the financial statements.

## Context for the opinion

14. 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 my report.
15. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with 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.
16. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Material uncertainty related to financial sustainability

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.

18. As disclosed in note 52 to the financial statements, the municipality is facing a number of financial risks that cast doubt on its ability to sustain its current level of operations in the near future. The key financial risks identified include:

- an inability to pay creditors within due dates
  - negative key financial ratios including a net current liability position.
- In addition, the actions taken by management to mitigate the impact of these risks are disclosed in this note.

### **Emphasis of matters**

19. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

20. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

### **Fruitless and Wasteful expenditure**

21. As disclosed in note 40 to the financial statements, fruitless and wasteful expenditure to the amount of R5, 5 million (2016:R9, 9 million) was incurred, as a result of interest paid on overdue accounts.

### **Significant uncertainties**

22. As disclosed in note 44 to the financial statements, the municipality was the defendant in a number of lawsuits estimated at R39, 9 million (2016: R43 million). The outcome of these lawsuits cannot be determined at present as litigation is still in progress.

### **Financial sustainability**

23. As disclosed in note 52 to the financial statements, the municipality is facing a number of financial risks that cast doubt on its ability to sustain its current level of operations in the near future. The key financial risks identified include:

- an inability to pay creditors within due dates
- negative key financial ratios including a net current liability position.

In addition, the actions taken by management to mitigate the impact of these risks are disclosed in this note.

### **Material Losses**

24. As disclosed in note 49 to the financial statements, material electricity losses to the amount of R94, 5 million (2016: R38,6 million) was incurred which represents 13% (2016: 60.7%) of total electricity purchased. Material losses were due to tampering of meters, faulty meters and illegal connections



## **Other matter**

25. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

26. 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 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 accounting officer**

27. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

28. In preparing the financial statements, the accounting officer is responsible for assessing the Makana Local Municipality'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 accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

29. 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

30. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

31. 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 priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

32. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. 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.

33. 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 development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
KPA 1 – Basic service delivery and infrastructure development	x – x
KPA 2 –Local economic development	x – x

34. 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.
35. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### **KPA 1 Basic service delivery and infrastructure development**

#### **Usefulness**

#### **Reported indicators and targets not consistent when compared with planned indicators and targets**

##### *Upgrading 3m of Kwa Nomzamo Internal Road at Riebeeck East*

The indicator was reported as Upgrading 3 m of KwaNomzamo Internal Road at Riebeeck East and the target was reported as 1 KM upgraded while the indicator and target was not included in the approved integrated development plan and service delivery and budget implementation plan. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (for municipalities).

##### *Approval of design and drawings for the Waainek Bulk Water Supply*

The indicator and target was reported as Approval of design and drawings for the Waainek Bulk Water Supply while the indicator and target was not included in the approved integrated development plan and service delivery and budget implementation plan. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (for municipalities).

**Performance indicators were not well-defined and targets were not specific, measurable and time bound**

#### Various indicators

36. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information and evidence and method of collection to be used when measuring the actual achievement for the various indicators, as required by the Framework for managing programme performance information (FMPPi). This was due to a lack of technical indicator descriptions and formal standard operating procedures or documented system descriptions. I was unable to test whether the indicators in the table below were measurable by alternative means.

<b>Performance indicator</b>	<b>Reported achievement</b>
Report on Collection of domestic and Businesses refuse in all formal and informal areas in Grahamstown quarterly	4 Reports on the Cleaning of formal area
Monthly collection of garden refuse in all 45 identified dumping sites in Grahamstown quarterly	Most legal dump sites could not be cleared for the past four months. For this period the only front end loader the municipality has had to replace the bulldozer that was not in working condition.
Completion of construction of Multi Purpose Indoor Sport Centre in ward 7 by June 2017	The contractor is busy with snags due to delay in construction
Construction of (11) High Mast at Mayfield Housing Projects by June 2017	11 High Mast constructed
Payment of Consultant and takeover of the WTW Plant by March 2017	Payment of the outstanding debt
Report on maintenance items completed for reducing water losses annually	1 Report
Report on the number of indigent households per month with access to free basic electricity	4 Reports on the number of indigent people receiving free basic electricity (Minimum of 1107H/H registration to receive FBE)
Report on the number of indigent households per month with access to free basic electricity	4 Reports on the number of indigent people receiving free basic electricity (Minimum of 5484H/H registration to receive FBE)
Report on the number of indigent households with access to water usage	4 Reports on the number of indigent people receiving free access to water. (Minimum of 4869H/Hs to receive water
Report on the number of indigent households with access free water availability	4 Reports on the number of indigent people receiving free access to water availability (Minimum of 4869H/Hs to receive water

<b>Performance indicator</b>	<b>Reported achievement</b>
Report on the number of indigent households with access free water availability sewer availability	4 Reports on the number of indigent people receiving free access to sewer availability (Minimum of 4869H/Hs to receive water
Report on the number of indigent households with access to free refuse removal services	4 Reports on the number of people receiving free refuse removal services
Report on the number of indigent households with access to free rates and taxes	4 Reports on the number of people receiving free removal services access to rates and taxes
Report on 4 RBIG Infrastructure development - James Kleynhans Bulk Water - Belmont WWTW - KwaThatha Bulk Sewer - Mayfield WWTW	Only report on James Kleynhans Bulk Water upgrade in Portfolio committees on the 17/11/16(ID 8:17), 15/06/17(ID 8:16) 16/03/17(ID8:19) 17/08/17(ID 8:10) Belmont WWTW - KwaThatha Bulk Sewer - Mayfield WWTW has not started..
Report on 1Project by PDoHS Eluxolweni Plumbing Works project	Project has been taken over by ECDC
Report on 3 Project by DWIS - Bucket Eradication Programme	Bucket eradication programme was reported on the portfolio committee on 15/09/17(ID 8:14), 17/11/17(ID 8:15) and closed out report on portfolio committee of 16/03/17(ID:811)
Upgrading 3m of Kwa Nomzamo Internal Road at Riebeeck East	1 KM upgraded
Approval of design and drawings for the Waainek Bulk Water Supply	Approval of design and drawings for the Waainek Bulk Water Supply

#### **Performance indicators were not verifiable**

37. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator, as required by the FMPP. This was due to a lack of technical indicator descriptions and formal standard operating procedures. I was unable to validate the existence of systems and processes for the following indicators by alternative means.

<b>Performance indicator</b>	<b>Reported achievement</b>
Report on Collection of domestic and Businesses refuse in all formal and informal areas in Grahamstown quarterly	4 Reports on the Cleaning of formal area
Monthly collection of garden refuse in all 45 identified dumping sites in	Most legal dump sites could not be cleared for the past four months. For this period the only front end loader the

<b>Performance indicator</b>	<b>Reported achievement</b>
Grahamstown quarterly	municipality has had to replace the bulldozer that was not in working condition.
Completion of construction of Multi Purpose Indoor Sport Centre in ward 7 by June 2017	The contractor is busy with snags due to delay in construction
Construction of (11) High Mast at Mayfield Housing Projects by June 2017	11 High Mast constructed
Payment of Consultant and takeover of the WTW Plant by March 2017	Payment of the outstanding debt
Report on maintenance items completed for reducing water losses annually	1 Report
Report on the number of indigent households per month with access to free basic electricity	4 Reports on the number of indigent people receiving free basic electricity (Minimum of 1107H/H registration to receive FBE)
Report on the number of indigent households per month with access to free basic electricity	4 Reports on the number of indigent people receiving free basic electricity (Minimum of 5484H/H registration to receive FBE)
Report on the number of indigent households with access to water usage	4 Reports on the number of indigent people receiving free access to water. (Minimum of 4869H/Hs to receive water
Report on the number of indigent households with access free water availability	4 Reports on the number of indigent people receiving free access to water availability (Minimum of 4869H/Hs to receive water
Report on the number of indigent households with access free water availability sewer availability	4 Reports on the number of indigent people receiving free access to sewer availability (Minimum of 4869H/Hs to receive water
Report on the number of indigent households with access to free refuse removal services	4 Reports on the number of people receiving free refuse removal services
Report on the number of indigent households with access to free rates and taxes	4 Reports on the number of people receiving free removal services access to rates and taxes
Report on 4 RBIIG Infrastructure development - James Kleynhans Bulk Water - Belmont WWTW - KwaThatha Bulk Sewer - Mayfield WWTW	Only report on James Kleynhans Bulk Water upgrade in Portfolio committees on the 17/11/16(ID 8;17), 15/06/17(ID 8:16)16/03/17(ID8;19) 17/08/17(ID 8:10) Belmont WWTW - KwaThatha Bulk Sewer - Mayfield WWTW has not started..

<b>Performance indicator</b>	<b>Reported achievement</b>
Report on 1Project by PDoHS Eluxolweni Plumbing Works project	Project has been taken over by ECDC
Report on 3 Project by DWIS - Bucket Eradication Programme	Bucket eradication programme was reported on the portfolio committee on 15/09/17(ID 8:14), 17/11/17(ID 8:15) and closed out report on portfolio committee of 16/03/17(ID:811)
Upgrading 3m of Kwa Nomzamo Internal Road at Riebeeck East	1 KM upgraded
Approval of design and drawings for the Waainek Bulk Water Supply	Approval of design and drawings for the Waainek Bulk Water Supply

## **Reliability**

### **Reported achievement not supported by sufficient appropriate audit evidence**

38. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 11 targets. 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 achievements detailed in the table below.

<b>Performance indicator</b>	<b>Planned Performance</b>	<b>Reported achievement</b>
Report on Collection of domestic and Business refuse in all formal and informal areas in Grahamstown quarterly	4 reports on the cleaning of formal areas	Report were submitted in the following Portfolio Committee SD 14/09/17-SD 8.5- 8/06/17,SD 8.4- 3/08/17(SD8.14),6/06/8.15/17
Payment of Consultant and takeover of the WWTW Plant by March 2017	Payment of outstanding debt	Outstanding payment was processed
Report on maintenance items completed for reducing water annually	1 report	Report are submitted to portfolio quarterly
Report on the number of indigent households per month with access to free basic electricity	4 reports on the number of indigent people receiving free basic electricity (Minimum 1107H/H registration to receive FBE)	4 Reports on the number of indigent people receiving free basic electricity (Minimum of 1107H/H registration to receive FBE)
Report on the number of indigent households	4 Reports on the number of indigent	4 Reports on the number of indigent people receiving free basic electricity

<b>Performance indicator</b>	<b>Planned Performance</b>	<b>Reported achievement</b>
per month with access to free basic electricity	people receiving free basic electricity (Minimum of 5484H/H registration to receive FBE)	(Minimum of 5484H/H registration to receive FBE)
Report on the number of indigent households with access to water usage	4 Reports on the number of indigent people receiving free access to water. (Minimum of 4869H/Hs to receive water)	4 Reports on the number of indigent people receiving free access to water. (Minimum of 4869H/Hs to receive water)
Report on the number of indigent households with access free water availability	4 Reports on the number of indigent people receiving free access to water availability (Minimum of 4869H/Hs to receive water)	4 Reports on the number of indigent people receiving free access to water availability (Minimum of 4869H/Hs to receive water)
Report on the number of indigent households with access free water availability sewer availability	4 Reports on the number of indigent people receiving free access to sewer availability (Minimum of 4869H/Hs to receive water)	4 Reports on the number of indigent people receiving free access to sewer availability (Minimum of 4869H/Hs to receive water)
Report on the number of indigent households with access to free refuse removal services	4 Reports on the number of people receiving free refuse removal services	4 Reports on the number of people receiving free refuse removal services
Report on the number of indigent households with access to free rates and taxes	4 Reports on the number of people receiving free removal services access to rates and taxes	4 Reports on the number of people receiving free removal services access to rates and taxes
Upgrading 3m of Kwa Nomzamo Internal Road at Riebeeck East	No planned target	1 KM upgraded

## **KPA 2 Local Economic Development**

### **Reliability**

#### **Reported achievement did not agree with the evidence provided**

Report on crafters supported by the municipality to participate in the NAF

39. The reported achievement for the target relating to 4 crafters participated in the NAF projects was misstated as the evidence provided indicated 3 crafters participated in the NAF projects and not 4 Exhibitor funded as reported.

#### **Number of work opportunities created through Municipal Programme**

40. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target one report submitted to Council. 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 one report submitted to Council.

Proof that municipal financial and technical support yielded positive impact in terms of tourism growth and the functioning of Makana Tourism

41. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 4 quarterly reports submitted to Portfolio Committee. 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 4 quarterly reports submitted to Portfolio Committee.

### **Other matter**

42. I draw attention to the matter below.

#### **Achievement of planned targets**

43. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under / 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 34 to 40 of this report.

<b>Report on audit of compliance with legislation</b>
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### **Introduction and scope**

44. 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 with

specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

45. The material findings on compliance with specific matters in key legislations are as follows:

#### Revenue management

46. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2) (e) of the MFMA.
47. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
48. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### Asset management

49. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
50. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA

#### Expenditure management

51. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the Municipal Finance Management Act
52. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by inadequate composition of the bid adjudication committee and invalid deviations.
53. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R6, 6 million, as disclosed in note 40 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

#### Liability management

54. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2) (a) of the MFMA.
55. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA

#### Budget management

56. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the



disclosed unauthorised expenditure was caused by non-cash items which were not budgeted for.

#### **Annual financial statements and annual report**

57. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
58. The annual performance report for the year under review did not include a comparison of the performance with set targets and comparison with the previous financial year, as required by section 46 (1)(b) of the MSA.

#### **Strategic planning and performance management**

59. KPIs were not set for the provision of basic water, sanitation, electricity and solid waste removal services as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).
60. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

#### **Procurement and contract management**

61. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
62. Some of the quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
63. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year. Similar non-compliance was also reported in the prior year.
64. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year. .
65. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year. .

66. Competitive bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services AND/OR at least one SCM practitioner of the municipality, as required by SCM regulation 28(2). Similar non-compliance was also reported in the prior year. i.
67. Some of the contracts were awarded through a competitive bidding process that was not adjudicated by the bid adjudication committee.
68. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
69. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework.
70. Some of the contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
71. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations.
72. Bid documentation for procurement of some of the commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1)
73. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by Preferential Procurement Regulation 9(1).
74. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by Preferential Procurement Regulation 9(5).
75. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5. Similar non-compliance was also reported in the prior year.
76. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. .
77. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

#### **Consequence Management**

78. Some of the fruitless and wasteful expenditure was certified by council as irrecoverable without having conducted an investigation to determine the recoverability of

the expenditure, in contravention of section 32(2)(b) of the Municipal Finance Management Act

79. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act .
80. I could not obtain sufficient appropriate evidence that unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the Municipal Finance Management Act.
81. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act .

#### **Other information**

82. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the Mayor's foreword and executive summary, the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
83. 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.
84. 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 priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
85. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

#### **Internal control deficiencies**

86. 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. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis qualified of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- Leadership has not instituted all the disciplines necessary to enable effective oversight that promotes efficiency and effectiveness in financial management, performance reporting and compliance with legislation. The inability to appoint an accounting officer has contributed to leadership not providing effective oversight over the implementation and monitoring of internal controls. The lack of leadership undermines accountability in the municipality, resulting in the modified audit opinion on the financial statements, performance reporting and material non-compliance with legislation.
- The control environment at the municipality is inadequate, with inadequate daily and monthly processing and reconciliation of transactions. The submitted financial statements contained numerous material misstatements that were not identified by the municipality's deficient system of internal control. In addition, underlying information was not adequate to support all the balances and transactions presented in the financial statements resulting in a modified audit opinion for the year under review. Furthermore, compliance with legislation was not monitored adequately throughout the year, resulting in numerous material findings on compliance with legislation.
- The annual performance report was not supported by complete, relevant and accurate information. Records management was inadequate and not systematically and regularly monitored by management to ensure that information was easily retrievable and available for audit purposes.
- Although an internal audit unit and the audit committee existed during the financial year, their effectiveness was impacted negatively because leadership failed to respond to the recommendations of internal and external audit.

Auditor General

East London

30 November 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 financial statements, and the procedures performed on reported performance information for selected development priorities 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 financial statements as described in the auditor’s report, I also:
  - Identify and assess the risks of material misstatement of the 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’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 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’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 financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the 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 to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **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/ authority] 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 here applicable, related safeguards.



**MAKANA**  
MUNICIPALITY | EASTERN CAPE  
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# MAKANA MUNICIPALITY AUDIT AND RISK COMMITTEE REPORT 2016/17

## Abstract

This report covers the duties and responsibilities of the committee. The report further discusses the main issues identified for the attention of the Council and related parties.

**31 August 2017**

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## **AUDIT COMMITTEE REPORT FOR THE 2016/17 FINANCIAL YEAR**

We are pleased to present our report for the year ended 30 June 2017.

### **Duties and responsibilities of the audit committee**

The primary purpose of the Audit Committee is to assist Makana Municipality Council in fulfilling its oversight responsibilities to ensure that the municipality has and maintains effective, efficient and transparent systems of financial management, risk management, governance and internal control.

### **Advisory**

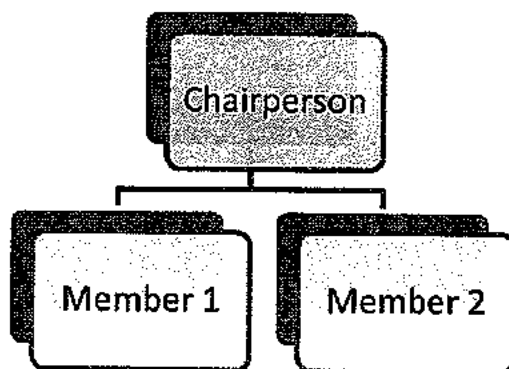
The Municipality's Audit Committee is established in terms of Section 166 of the MFMA, Municipal regulations and the King IV Report on Corporate Governance. The committee as an independent advisory body, must advise the Municipality, Accounting officer and the Management staff on matters relating to:

- Internal financial control and internal audits ;
- Risk management;
- Accounting policies;
- The adequacy, reliability and accuracy of financial reporting and information ;
- Performance management;
- Effective governance;
- Compliance with MFMA Act,
- Annual Division of Revenue Act and any other applicable legislation;
- Performance evaluation; and
- Any other issues referred to it by the municipality.

### **Other Key Functions and Responsibilities**

- Oversight over the operations of Internal Audit Unit.
- The Audit Committee discharges its duties in line with its Charter that was regularly reviewed by Council and regulates affairs of the committee.
- The Audit Committee strives to comply with relevant legislation as it discharges its responsibilities.
- The External Auditors and Internal Audit Unit 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.

## Audit Committee Composition



The Committee has three members that were appointed on 04 December 2014, all of whom are competent in discharging their responsibilities, with all three forming a quorum.

Name	26 August 2016	25 November 2016	09 February 2017	23 June 2017
Ms. T. Mqeta Chairperson	Attended	Attended	Attended	Attended
Dr. M. Deliwe Member	Attended	Attended	Attended	Attended
Mrs. F. Mushohwe CA (SA) Member	Attended	Attended	Attended	Attended

The Municipal Manager, Senior Management, Assurance providers Risk and Compliance Manager, Legal Manager Internal and External Auditors are invitees to attend the Committee meetings. Where necessary, in – committee meetings are held with only the Acting Municipal Manager, Internal Audit Manager.

### Discharge of responsibilities

The committee has a detailed work plan, which is formally adopted to support its effective functioning during the period. The committee is satisfied that it has during the past financial year met its responsibilities as stipulated in the Audit Committee Charter and it has complied with its legal, regulatory and other responsibilities

### Internal Control

The system of Internal Control was not entirely effective for the period under review however it must be noted that there is slight improvement that was identified.

## **Internal Audit**

The committee is concerned that the Internal Audit Unit has only two officials as at 30 June 2017. To quote from the Auditor General's report issued on the 30 November 2016, paragraph 55 read as follows "*The Internal Audit Unit did not function as required by section 165(2)*"

Internal Audit function has not addressed all risks pertinent to Makana Municipality in its annual plan and audits. This is mainly because the Unit does not have the capacity to effectively execute the functions as required by section 165 of the Municipal Finance Management Act. Meaningful contribution of audit committee is influenced by the work of Internal Audit, as at year-end the Internal Audit Unit only had two officials.

Again this year, a request is submitted for urgent attention be concentrated to building of capacity of this Unit.

## **Risk Management and Effective Governance**

The committee has during the year under review:

- Exercised oversight in respect of enterprise risk management function which remains management's responsibility.
- Monitored the implementation of the municipality's policy and risk management annual plan.
- Monitored implementation of the municipality's risk management action plan and made recommendations regarding improvement of the reporting thereon.
- Management should increase their commitment and their efforts for an effective risk management practices.

## **Annual Financial Statements Review**

The Audit and Risk Committee is also expected to review the Annual Financial Statements to provide the Council of the Municipality with an authoritative and credible view of the financial position of the Municipality, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation ;

The committee should respond to the Council on any issues raised by the Auditor General in the Audit Report; as well as to carry out such investigations into the financial affairs of the Municipality as the Council of the municipality may request. The Audit Committee is also expected to any other functions as prescribed. In performing its functions, the Audit and Risk Committee must have access to the following:

- Financial records and other relevant information of the Municipality; and
- Liaise with the Internal Audit Unit of the Municipality; and
- The person designated by the Auditor-General to audit the financial statements of the Municipality.

The committee has reviewed the draft financial statements of the Municipality and is satisfied that they comply with GRAP Standards. Strides have been made in this regard to produce an improved quality of annual financial statements.

### **Annual Performance Report Review**

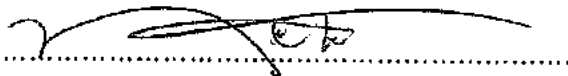
The committee has reviewed the draft Annual Performance Report and recommendations have been noted by management for implementation.

### **Annual Report Review**

The committee reviewed the draft Annual Report and recommends that it be adopted by the Council.

### **Auditor-General South Africa**

There is a professional relationship between the Audit Committee, Auditor General and management. The AGSA is a standing invitee in our meetings.



**Chairperson of the Audit and Risk Committee**

**Ms. Tembela Mngqeta**

**Date: 31 August 2017**

