

Chapter 7

Annual Financial Statements for the 2013/14 Financial Year



Draft Annual Financial Statements 2013/14 Financial Year



**NKETOANA LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2014**

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

General Information

Legal form of entity	Local Municipality Demarcation number: FS193
Nature of business and principal activities	Providing municipal service and maintain the best interests of the local community mainly in the Reitz area.
Mayoral council	M Molapisi (Mayor) P Nkomo (Speaker) M Malindi (Executive Member) M Mphaka (Executive Member) M Blignaut (Executive Member) M Moloedi (Executive Member)
Councillors	G Nhlapo P Mofokeng T Radebe M Nakedi M Mosia M Semela K Mokoena N Tshabalala P Sibeko P Moshoadiba - Resign on 19/08/2013 S Du Preez S Henning R D Majoe - Elected on 01/10/2013
Grading of local authority	Medium Capacity Grade 3 in terms of the Remuneration of Public office Bearers Act
Accounting Officer	LI Mokgatlhe (Municipal Manager)
Chief Finance Officer (CFO)	BB Sithole - Appointed:01/11/2013
Registered office	Corner Church and Voortrekker Reitz 9810
Business address	Corner Church and Voortrekker Reitz 9810
Postal address	P.O. Box 26 Reitz 9810
Bankers	ABSA (Primary bank)
Auditors	Auditor General South Africa

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Index

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

Contents

Accounting Officer's Responsibilities and Approval

Report of the Auditor General

Accounting Officer's Report

Statement of Financial Position

Statement of Financial Performance

Statement of Changes in Net Assets

Cash Flow Statement

Appropriation Statement

Accounting Policies

Notes to the Annual Financial Statements

The following supplementary information does not form part of the annual financial statements and is unaudited:

Appendixes:

Appendix A: Schedule of External loans

Appendix B: Analysis of Property, Plant and Equipment

Appendix C: Actual versus Budget (Revenue and Expenditure)

Appendix D: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Index

Abbreviations

EPWP	Expanded Public Works Programme
SALGBC	South African Local Government Bargaining Council
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
VAT	Value Added Tax
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MFMG	Municipal Finance Management Grant
LG SETA	Local Government Sector Education Training Authority
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ABSA	Amalgamated Bank of South Africa
MSIG	Municipal System Improvement Grant
SARS	South African Revenue Service

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the 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 municipality. 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 annual 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, 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 7 to 114, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on its behalf by:

Accounting Officer
LI Mokgatlhe



Report of the Auditor General

To the Provincial Legislature of Nketoana Local Municipality

Report on the financial statements

I have audited the accompanying annual financial statements of the Nketoana Local Municipality which comprise the statement of financial position as at 30 June, 2014, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 7 to 114.

Responsibility of the Accounting Officer for the annual financial statements

The accounting officer is responsible for the preparation and fair presentation of these annual financial statements in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] , and in the manner required by the Companies Act of South Africa [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

Report of the Auditor General

Responsibility of the Auditor-General

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section XX of any applicable legislation], my responsibility is to express an opinion on these annual financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements 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 entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

Auditor General South Africa

30 November, 2014

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June, 2014.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 75,230,129 (2013: deficit R 52,983,790).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer does not have any interest in contracts.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
L.I Mokgatlhe (Municipal Manager)	South African

7. Acting Chief Financial Officer

The municipality had Acting Chief Financial Officer during the year.

Acting Chief Financial Officer of the municipality was in this office from 21 May 2013 to Friday, 1 November, 2013 and Mr BB Sithole was appointed on Friday, 1 November, 2013.

The Acting Chief Financial Officer of the municipality was Ms Fikile Mzizi.

8. Auditors

Auditor General South Africa will continue in office for the next financial period.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Statement of Financial Position as at 30 June, 2014

Figures in Rand	Note(s)	2014	2013 Restated
Assets			
Current Assets			
Inventories	3	776,544	591,983
Receivables from non-exchange transactions	4	15,982,821	18,638,723
VAT receivable	5	1,763,881	3,469,164
Receivables for exchange transaction	6	30,667,338	58,947,504
Cash and cash equivalents	7	789,302	3,698,369
		49,979,886	85,345,743
Non-Current Assets			
Biological assets that form part of an agricultural activity	8	22,700	11,500
Investment property	9	8,263,614	8,410,204
Property, plant and equipment	10	598,768,234	592,807,709
Intangible assets	11	27,833	40,131
Investments	12	4,582,445	4,282,973
Long-term deposit	14	2,018,500	2,018,500
		613,683,326	607,571,017
Non-current assets held for sale and assets of disposal groups	15	1,595,264	2,250,000
Total Assets		665,258,476	695,166,760
Liabilities			
Current Liabilities			
Other financial liabilities	17	906,482	938,853
Payables from exchange transactions	19	74,118,086	14,191,184
VAT payable	20	14,844,053	17,945,945
Consumer deposits	21	1,251,344	1,228,563
Employee benefit obligation	13	335,000	523,000
Unspent conditional grants and receipts	16	3,679,861	5,489,578
Cash and cash equivalents	7	1,670,608	11,475,843
		96,805,434	51,792,966
Non-Current Liabilities			
Other financial liabilities	17	10,410,778	11,440,784
Employee benefit obligation	13	11,102,000	9,537,000
Provisions	18	3,778,956	4,004,580
		25,291,734	24,982,364
Total Liabilities		122,097,168	76,775,330
Net Assets		543,161,308	618,391,430
Accumulated surplus		543,161,308	618,391,430

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated
Revenue			
Revenue from exchange transactions			
Service charges	24	97,801,899	76,524,578
Rental of facilities and equipment	38	433,839	476,571
Interest received on consumers		19,071,015	16,416,211
Other income	27	1,397,572	1,607,433
Interest received - investment		411,307	1,501,123
Total revenue from exchange transactions		119,115,632	96,525,916
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	16,766,245	16,194,067
Transfer revenue			
Government grants & subsidies		128,777,665	118,114,362
Public contributions and donations		8,000	2,043,939
Fines		94,074	143,185
Total revenue from non-exchange transactions		145,645,984	136,495,553
Total revenue	22	264,761,616	233,021,469
Expenditure			
Bulk purchases	40	(34,430,699)	(37,217,622)
Contracted services	39	(12,770,134)	(12,469,895)
Debt impairment	32	(95,804,024)	(44,402,410)
Depreciation and amortisation	35	(64,369,581)	(74,476,529)
Finance costs	36	(2,917,794)	(1,363,156)
General Expenses	28	(45,291,830)	(43,963,189)
Impairment loss		-	(853,948)
Personnel	30	(68,647,854)	(57,745,974)
Remuneration of councillors	31	(5,379,214)	(4,924,503)
Repairs and maintenance		(10,510,487)	(8,821,056)
Total expenditure		(340,121,617)	(286,238,282)
Operating deficit	29	(75,360,001)	(53,216,813)
Gain on disposal of assets and liabilities		654,736	912,276
Fair value adjustments	34	129,872	85,220
Loss on non-current assets held for sale or disposal groups		(654,736)	(764,473)
		129,872	233,023
Deficit for the year		(75,230,129)	(52,983,790)

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	647,091,840	647,091,840
Adjustments		
Correction of errors	19,112,901	19,112,901
Prior year adjustments	5,170,479	5,170,479
Balance at 1 July, 2012 as restated*	671,375,220	671,375,220
Changes in net assets		
Deficit for the year	(52,983,790)	(52,983,790)
Total changes	(52,983,790)	(52,983,790)
Balance at 1 July, 2013	618,391,437	618,391,437
Changes in net assets		
Deficit for the year	(75,230,129)	(75,230,129)
Total changes	(75,230,129)	(75,230,129)
Balance at 30 June, 2014	543,161,308	543,161,308
Note 46 prior period error		

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Sale of goods and services		70,727,477	54,730,223
Grants		126,967,948	117,945,983
Interest income		411,307	1,501,123
		<u>198,106,732</u>	<u>174,177,329</u>
Payments			
Employee costs		(72,650,068)	(59,196,477)
Suppliers		(44,883,044)	(104,848,615)
Finance costs		(2,917,794)	(1,363,156)
		<u>(120,450,906)</u>	<u>(165,408,248)</u>
Net cash flows from operating activities	41	77,655,826	8,769,081
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(70,221,660)	(28,035,640)
Proceeds from sale of property, plant and equipment	10	654,736	(5,453,108)
Purchase of investment property	9	26,944	-
Purchase of other intangible assets	11	12,299	677,793
Proceeds from sale of financial assets		(169,600)	124,258
Proceeds from sale of Non-current assets		-	333,593
Other cash item		-	(300)
Net cash flows from investing activities		(69,697,281)	(32,353,404)
Cash flows from financing activities			
Repayment of non-current borrowings		(1,062,377)	(1,321,520)
Net cash flows from financing activities		(1,062,377)	(1,321,520)
Net increase/(decrease) in cash and cash equivalents		6,896,168	(24,905,843)
Cash and cash equivalents at the beginning of the year		(7,777,474)	17,128,369
Cash and cash equivalents at the end of the year	7	(881,306)	(7,777,474)