

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>42. Commitments (continued)</b>		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	2,293,696	590,524
- in second to fifth year inclusive	3,464,899	4,188,891
	<b>5,758,595</b>	<b>4,779,415</b>
<b>Operating leases - as lessor (income)</b>		
<b>Minimum lease payments due</b>		
- within one year	(248,008)	(166,500)
- in second to fifth year inclusive	(264,370)	(242,539)
- later than five years	(57,916)	-
	<b>(570,294)</b>	<b>(409,039)</b>

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013			
<b>43. Contingencies</b>					
<b>PARTY AND PARTICULARS</b>	<b>ACTUAL AMOUNT INVOLVED</b>	<b>CONTIGENCY AMOUNT INVOLVED</b>	<b>CONTIGENCY NLM LEGAL FEES</b>	<b>SUING PARTY CONTIGENCY</b>	<b>TOTAL CONTIGENCY PLUS COST</b>
Monthei Construction, Company appointed for MIG project suing for professional fees, services and disbursement	2,104,255	-	526,064	526,064	3,156,383
Telkom, Damage Telkom cables at 36 1st Street, Reitz	133,394	-	33,350	33,350	200,094
JU Van Der Berg, claim for payment servitude	-	75,000	18,750	18,750	112,500
HF Botha, alleged damage to his vehicle by municipal official	17,176	-	4,294	4,294	25,764
Telkom, Damage Telkom cables at Steyn Street, Mamafubedu.	66,982	-	16,745	16,745	100,472
Telkom: Damages caused by employees on Voortrekker Street	69,314	-	-	5,260	74,574
Telkom, Damage Telkom cables at Cnr Swart/Walker Street	17,473	-	4,368	4,368	26,209
Q and H Water and Sewage Services Pty Ltd, payment outstanding for supply and/or repair of plant equipment.	1,092,417	-	273,104	273,104	1,638,625
TLWG Lekota: Personal injury, speed hump with no signs Portgieter Street, PS	310,000	-	77,500	77,500	465,000
Telkom: Damage Telkom cables at 19 Eeufees Street, Petrus Steyn	-	50,000	12,500	12,500	75,000
Radebe DD: unfair dismissal	1,568,229	-	392,057	392,057	2,352,343
ELB Equipment, payment outstanding for supply of plant equipment.	93,238	-	23,309	23,309	139,856
Rudnat Projects CC: Services rendered for business plan and designs	5,287,036	-	1,321,759	1,321,759	7,930,554
professional fees					
Blue Kite Properties: Sale of Old Auction Kraalslindley.	45,600	-	11,400	11,400	68,400
Company paid for buying land and wants to cancel					
D Nhlapo, alleged damage to his vehicle by municipal official.	10,778	-	2,694	2,694	16,166
	<b>10,815,892</b>	<b>125,000</b>	<b>2,717,894</b>	<b>2,723,154</b>	<b>16,381,940</b>

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 43. Contingencies (continued)

NOTES: SOURCE OF CONTINGENCY CALCULATIONS: SUBORDINATE LEGISLATION IN TERMS OF THE CONTINGENCY FEES ACT, 1997 (ACT 66 OF 1997)

(a) Section 1(vi)(b) and 5: Determination of Professional Controlling Body and designation of a body published in Government Notice No. R 546 of 23 April 1999 (Government Gazette No. 2009) and amended by Government

Notice No R 1110 of 3 November 2000 (Government Gazette no 21719). LIMIT AT 25% OF CLAIM AMOUNT. Actual amount represent the actual amount as it appears on the letter of demand, summons or claim in other tribunal such as bargain council as calculated on contract or legislation.

Contingency of amount involved refers to amount where the demand does not specify the amount claim pending quotations or actual repairs costs, or other costs,

Suing Party Contingency on Legal on Legal Fees refers to costs of party suing municipality legal costs as calculated based on Contingency Fees Act 66 of 1997.

Contingency on NLM legal fees refers to legal fees contingency that municipality pays its legal representation.

#### Contingency - VAT payable

The municipality had claimed VAT on invoice from VAT vendors whose invoice did not meet the requirements of a valid tax invoice as required by Section 20 of Value Added Tax 89 of 1991.

The municipality's possible liability as a result of the above is estimated at R 208, 642.30

#### Contingencies arising from pending litigation on the wage curve agreement.

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/payable for the employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/payable prior to the outcome of the litigation. Furthermore, the municipality did not have proper job evaluations in the place to be used as a basis of determining the amount of contingency.

#### Contingent liability - Unlicensed landfill sites

The municipality managed 1 landfill site in Petrus Steyn without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).

In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed.

Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community.

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 44. Related parties

##### Relationships

Accounting Officer

Chief Financial Officer

Councillors

Refer to accounting officer's report note

BB Sithole

Radebe Teboho Patrick (Vis a Vis Trading)

Tshabala Ncani Selina (Dexpro Construction)

Mosia Mokete Jeremiah (Mahatammoho Reteng)

Mokoena Kgaketla Abram (Re Bonahatse

construction)

Blignaut Marthinus - (Agristan SA; Monaufic

Beleggings; NG Welsyn Reitz Wooneenhede; NG

Welsyn Reitz Tehuis; Tipakri Eiendoms Beleggings)

NG Welsyn Reitz - (Tehuis; Monaufic Belegging; NG

Welsyn Reitz Wooneenhede; Tipakri Eiendoms

Beleggings; Agristan SA)

Mofokeng Phoka Petrus (PMMM Builders; Purple

Moss 1057)

Moshwadiba Pasika Zacharia (Schwak's Construction and Distribution)

Managers

Mokgatlhe Lekgetho (EntleTrading 507)

Lekgau Tebogo (Seopex Trading and Projects)

Maseko Sebina Mable (Maseko and Moji Trading and Projects)

Sithole Bongumusa Benedict (Bongment Consulting;

Skwaya Construction and Services; Zakios Trading Enterprise)

Letsela Samson Moeketsi (Thabo Mofutsanyane;

Goodman Football Academy; Small Green Garden Centre; Lapoloha Restaurant)

Directors

Nhlapo Solomon Mokete (Kido Consultancy)

Manzi Mwandile Penwel (Nthape IT

Mamampu Trading Enterprise

Mzwajo Project Management Services

Pemzwa Consultancy Agency)

Moletsane Morakane Mariam (Keewave Trading 97)

(Femininity In Development)

(Moletsane MM Project Management and

Construction)

(Superior Quality Engineering and Technologies 7)

(Thembalentswe Construction and Projects)

(Moletsane and Diale Service Providers)

Mzizi Veronica Fikile (Piletso Kgamathai

Constructions

The above members of council has active business during the financial year under review, however did not trade with the municipality either directly or indirectly.

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 45. Change in estimate

##### Property, plant and equipment

The municipality assess the useful life of there Other assets in the current year. The life the span adjustment was performed restrospectively as the municipality did not performed a assessment in the previous year and therefore the adjusment as a error.

The effect of this revision has decrease the depreciation charges in the previous year by R 1, 447,543.

Also the effect of this revision has increased the depreciation charges for the current and future periods by R 1,626,055.

#### 46. Prior period errors

The correction of the error(s) results in adjustments as follows:

##### Statement of financial position - 2011/12

Decrease in land		(38,185,330)
Decrease in buildings		8,329,284
Increase in infrastructure assets		51,066,147
Increase in community assets		119,855
Decrease in other assets	-	(206,746)
Decrease in intangible assets	-	(116,221)
Decrease in Non-current assets held for sale	-	(2,324,892)

##### Statement of Financial Performance - 2011/12

Decrease in depreciation		21,959
Decrease in finance cost		38,206

##### Statement of financial position - 2012/13

Increase in Inventory		290,641
Effect on accumulating surplus	-	19,112,901



## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>46. Prior period errors (continued)</b>		
<b>Statement of Financial Performance - 2012/13</b>		
Increase in depreciation - Community assets		(2,134)
increase in traffic fines		27,600
Decrease in depreciation		35,154
Decrease in finance cost		72,402
Increase in Grant revenue		323,000
Gain/(loss) on disposal of assets		45,462
Increase in rental income		61,274
Decrease in finance cost - provisions		86,168
Increase in lease expenses		(168,960)
Increase in Bulk purchases		(8,382,823)
Increase in impairment loss on Non-current assets		(520,355)
Decrease depreciation in movable assets		1,222,888
Increase in infrastructure depreciation		(9,740,280)
Effect on Deficit previous year		(16,940,588)

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 46. Prior period errors (continued)

##### Prior year adjustments error

The prior year adjustments as reflected under Statement of Changes in Net Assets are prior year movement that were directly taken to accumulating surplus without adjust the comparative figure as presented in that year. The amount related to 2012 comparative figures on both the Statement of Financial Position and Statement of Financial performance.

This disclosure error are corrected in the current financial year and is corrected in the balance of 1 July 2012.

##### Investment Property

During the previous financial years there were 3 sites lease to the public that could not be trace to the previous land register. During the reperformce of the land register and comparision with information on the lease contract these sites were link and reallocated to the investmet property. There were no effect on accumulating surplus as this is a transfer from Property,plant and Equipment to Investment Properties.

##### Property,plant and equipment

During the previous financial year the transformer were damage by a lighting storm at the Grain Field Chicken's plant. Grain Field Chicken was the company repairing the asset. The asset was discussed by the managers responsible for the loan agreement, a decision was taken that the municipality never had the risk and rewards or even control over the transformer. Therefore the asset were derecognised from the electricity asset register and the loan account decrease with the cost of the asset of R 703,089.

Interest and depreciation were subsequently reverse and increase accumulating surplus/(Deficit) with R 60,165.

During the 2012 financial year the land register were tested for completeness using a bulk deed search. The municipality incorrectly removed two properties in trying to align the land register to the information as per deeds office. The error were restrospectively corrected in the current financial year and amounted to R 1,407 166.

Assets were discovered that where not previously taken into account during the implementation of the GRAP 17 fixed assets registers. The net result of the changes compared to the previous year is R 2,671,136 mainly because of the change with in property, plant and equipment categories.

##### Community service

As a result of assets verification in the current financial prior period errors on community assets were identified and subsequently correct and resulted in the net movement of R 265,847 increase in asset value of community assets.

##### Inventory

In the current year a error were identified on the water levels used and the formula error when the lower of cost and fair value were determined by dividing kiloliters sold instead of kiloliters produce. Only the reservoirs level for reitz were included and the other units were accidently ommitted. The effect of the error on accumulating surplus is a increase of R 290,641.

##### Traffic fines

Ommision of Traffic revenue in the previous financial year of R 27,600 let to a increase in accumulating surplus and the understatement of Other debtors with R 27,600.

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 46. Prior period errors (continued)

##### Depreciation

Refer to Comparative figures note for detail.

##### Finance cost

Refer to Comparative figures note for detail.

##### Grant Revenue

In the previous financial year grant revenue was incorrectly allocated to unknow deposit account and where only allocated in the current financial year. The transaction were reverse and treated as a prior period error and the effect on the accumulating surplus is a increase of R 323,000.

##### Gain/(loss) on disposal of assets

Similar to above grant revenue there were a amount deposited and incorrectly allocated to unknow deposit account. The transaction were reverse and treated as a prior period error and the effect on the accumulating surplus is a increase of R 45,462.



## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 47. Comparative figures

Certain comparative figures have been reclassified.

As a result of the prior year reclassifications and correction of prior year errors the following transaction and balance has been restated and reclassified as it differ to what was present as comparatives.

The effects of the reclassification are as follows:

#### Statement of financial position

Inventories	591,983	301,342
Receivables from non-exchange transactions	18,638,723	10,044,888
Receivables from exchange transaction	58,947,504	69,785,812
Investment Property	8,410,204	2,958,485
Property, plant & Equipment	592,807,709	595,503,185
Intangible Assets	40,131	156,352
Long term deposit	2,018,500	-
Other financial liabilities	938,853	427,786
Payables from exchange transactions	14,955,658	15,637,427
VAT payable	17,945,945	17,625,069
Employee benefit obligation	523,000	-
Cash and cash equivalents	11,475,843	14,088,697
Other financial liabilities	11,440,784	12,765,548
Employee benefit obligation	9,537,000	6,972,000
Provisions	4,004,580	7,178,766

#### Statement of Financial Performance

Rental of facilities and equipment	476,571	415,297
Government grants & Subsidies	118,114,362	117,791,362
Fines	143,185	115,585
Bulk purchase	37,217,622	28,834,798
Contracted Serives	12,469,895	12,622,881
Depreciation	74,476,529	65,992,159
Finance cost	1,363,156	2,254,743
General expenses	43,963,189	43,454,968
Personnel	57,745,974	57,012,665
Repairs & Maintenance	8,821,056	9,007,640
Gain on disposal of assets and liabilities	147,802	102,341

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 47. Comparative figures (continued)

##### Statement of financial position:

##### **Inventories**

Refer to note 46.

##### **Receivables from non-exchange transactions**

Rates services classified as non-exchange with an amount of R 10,838,307.

Eskom deposit reclassified as long term deposit and disclose as a separate line item amounting R 2,018,500.

Increase in traffic revenue with R 27,600 in the previous year.

Recognition of auction revenue & loss on assets not accounted in 2013 amounting to R 253,572.

##### **Receivables from exchange transaction**

Rates services classified as non-exchange with an amount of R 10,838,307.

##### **Investment Property**

Investment Property transferred from land register amounting to R 4,743,386.

Investment Property transferred from Buildings amounting to R 708,333.

##### **Property, plant and equipment**

Reversal of middelpunt farm incorrectly written out of the FAR 2012 due to the completeness test performed during the audit amounting to R 1,470,166.

Reclassification of land properties held to Investment property under lease agreements to R 1,203,990.

Transfer of PPE building to investment property register of R 43,056.47.

Derecognition of transformer included in the CFG loan agreement and accumulating depreciation on the item.

Community assets derecognised and suppliers credit note against Work in progress project in the previous year.

Assets were discovered that were not previously taken into account during the implementation of the GRAP 17 fixed assets registers. The net result of the changes compared to the previous year is R 2,671,136 mainly because of the change with in property, plant and equipment categories.

##### **Intangible Assets**

Intangible assets were derecognised as they were expired and some programs not longer in use.

##### **Long term deposit**

Eskom deposit reclassified as long term deposit.

##### **Other financial liabilities**

Restated of GFC Loan and the allocation of shortterm portion to it.

##### **Payables from exchange transaction**

Proceeds of Auction fees included in unknown deposits of R 299,033.

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 47. Comparative figures (continued)

Grant revenue included under unknown deposits in the previous years of R 323,000.

Lease income not billed but debtors made payment and amounts were included in debtors with credit balances.

Bulk purchase invoice not accounted in correct period of R 1,535.

##### VAT payable

Credit note process in the incorrect period to capital projects.

##### Employee benefit obligation

New accounting standard application and therefore require separately presentation.

##### Cash and cash equivalents

Credit note process in the incorrect period to capital projects included in outstanding payments.

##### Other financial liabilities

Derecognition of transformer included in the CFG loan agreement of R 703,089.

Restated of GFC Loan and the allocation of shortterm portion to it.

(Refer to Other financial liabilities under Current assets)

Interest decrease as a result of the derecognition of the transformer from loan account of R 110,606.

##### Employee benefit obligation

Reclassification of long service awards from provision to Employee cost benefit previously under provision.

##### Provisions

Reclassification of long service awards from provision to Employee cost benefit

#### Statement of Financial Performance:

##### Rental of facilities and equipment

Debtor paid for the rental but where never billed as there contracts expired but remain leasing the properties.

The amount of R 61,274.08 were therefore accounted as revenue.

##### Government grants & Subsidies

Grant revenue included under unknown deposits in the previous years amounting to R 323,000.

##### Fines

Omission of Traffic revenue in the previous financial year of R 27,600 let to a increase in accumulating surplus and the understatement of Other debtors with R 27,600.

##### Bulk purchase

Invoice were accounted in the wrong financial year for both Eskom and Department of Water to R 8,382,824.

##### Contracted Services

Reallocation of expense from professional fees to general expense (operating lease)

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 47. Comparative figures (continued)

##### Depreciation

The municipality assess the useful life of there Other assets in the current year. The life the span adjustment was performed restrospectively as the municipality did not performed a assessment in the previous year and therefore the adjusment as a error.

Assets were discovered that where not previously taken into account during the implementation of the GRAP 17 fixed assets registers

Prior year adjustment on community assets and electricity assets register resulting in a increase in depreciation of R 2,134.

##### Finance cost

Reclassification of Defined benefit plan finance cost in correctly classified not by nature of the expense & Long service interest amounting to R 733,000.

Reversal of interest as result of the derecognition of transformer from the Grain field Chicken loan of R 72,401.62.

##### General expenses

Refer to Contracted services above.

Lease expenses not accounted in correct period amounting to R 168,960

##### Personnel

refer to Finance cost above.

##### Repairs & Maintenance

Reallocation of expense from repairs and maintenance to general expense of R 186,584.

##### Gain on disposal of assets and liabilities

Accounting of profit from Auction in the previous year of R 45,461.

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 48. Risk management

##### Capital risk management

The municipality's objective when managing capital is to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 17, cash and cash equivalents disclosed in note 14 and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

##### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Risk management plans are developed and monitored to ensure council's policies and systems are reviewed regularly to reflect changes in the municipality's operations.

The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.



## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 48. Risk management (continued)

##### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2014	2013
		Restated
Investments	4,582,445	4,282,973
Receivables from exchanges	30,667,338	58,947,504
Receivables from non-exchange	15,982,821	18,638,723
Cash and cash equivalents	789,302	3,698,369

##### Investments

The Municipality shall execute a cession to the benefit of the DBSA on its Standard Bank fixed deposit investment of R 3,826,144

##### Receivables from exchanges

Fair value after adjustment for impairment losses.

Financial liabilities exposed to credit risk at year end were as follows

##### Financial instrument

Payables from exchange transaction	74,118,086	14,191,184
Other financial liabilities	10,410,778	11,440,784
Unspent conditional grants and receipts	3,679,861	5,489,578
	<b>88,208,725</b>	<b>31,121,546</b>

##### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. The municipality is geared by both a fixed interest rates and variable interest rates.

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 49. Going concern

We draw attention to the fact that at 30 June, 2014, the municipality had accumulated deficits of R 543,161,308 and that the municipality's total liabilities exceed its assets by R 543,161,308.

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.

#### 50. Events after the reporting date

##### Adjustable after reporting date event.

Petrol expenses were incurred on the Municipalities fleet card system when the related vehicles were stationary during the time these cards were used. The municipality had subsequently open a case of fraud and the above expenditure is include under general expense fuel and Oil.

This was discovered after 30 June 2014, but the fraud were incurred during the financial year. The accounts were adjusted after year end and a receivable was raised for the amount of R 407,520.48

#### 51. Unauthorised expenditure

Opening balance	100,436,551	113,406,283
Unauthorised expenditure	13,227,353	31,166,223
Approved or condoned by council - previous years	-	(44,135,955)
	<b>113,663,904</b>	<b>100,436,551</b>

#### 2013

Approved or condoned by council of unauthorised expenditure of the previous years related to expenses that were not included in the budget 2010/11. The implementation of GRAP 17, application of IAS 39 for Debt Impairment and the rehabilitation provision for Waste removal sites.

#### 52. Fruitless and wasteful expenditure

Opening balance	734,343	198,153
Non VAT vendors paid with input - 2013	38,353	-
Clinic account paid by Municipality - 2013	7,205	-
Penalty fees: Investment call before their maturity	-	22,497
Interest charges and penalties charges	330,498	129,748
Termination of contracts - Compensations paid	-	152,742
Termination of contract of Municipal Manager - Settlement for early termination	-	224,973
Legal costs paid - bargaining cost	-	6,230
Fleet cards	407,520	-
Interest charges on account payables (Eskom)	1,885,225	-
Assets register consultation fees	266,158	-
	<b>3,669,302</b>	<b>734,343</b>

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

#### 52. Fruitless and wasteful expenditure (continued)

##### Current year Fruitless and wasteful expenditure.

In the above fruitless and wasteful expenditure, petrol expenses were incurred on the Municipalities fleet card system when the related vehicles were stationary during the time these cards were used. The municipality had subsequently open a case of fraud and the above expenditure is include under general expense fuel and Oil.

Assets register consultation fees : Amount paid might be fruitless and wasteful expenditure as the same issues have been arising for the past 3 years.

##### Previous year Fruitless and wasteful expenditure.

Termination of employment contracts of Mr Underman and Mr Ramulwel by Council.

Current year interest were paid to 3 suppliers to the amount of R 54,138 and penalty (R79,783) and interest (R9,548) was offsetted against VAT refunds for the year and is therefore regarded as fruitless and wasteful expenditure. This is also disclosed as non-compliance under note 56 .

#### 53. Irregular expenditure

Opening balance	51 605 252	17 550 525
Add: Irregular Expenditure - current year	14 329 995	15 757 579
Add: Irregular Expenditure - prior year	302 327	18 297 148
	<b>66 237 574</b>	<b>51 605 252</b>

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>53. Irregular expenditure (continued)</b>		
<b>Analysis of expenditure awaiting condonation classification</b>		
Not submitting the minimum quotations for acquiring goods and services	165 085	3 487 521
Goods and services not provided in terms of the amount quoted or not the lower quote	2 906 086	127 886
Competitive bidding process not followed	-	2 006 385
Original tax clearance certificate were not provide and tax clearance expired	-	3 793 590
Supply chain management policy on declarations of interest for quotation under R 30, 000 not fully adhered to	-	1 431 693
Scores for B-BBEE not allocated accurately	317 109	-
Quotes and bids not evaluated in accordance with PPPF Act	2 326 087	-
Bid adjudication did not consist of the required member and SCM Practitioner not part of the bid evaluation committee	6 658 815	-
One instance of a supplier prohibition that is a legitimate company with a prohibited shareholder not detected	-	1 559 154
Goods and services were procured without supply chain management regulation of three quotations between R 10, 000 - R 30, 000	-	4 494 352
Procurement of goods and services were newspapers advertisements was not within the relevant time frames	-	3 361 930
Bids awarded not in line with the Supply Chain Policy	-	4 535 952
Procurement of goods and services were the suppliers' municipal accounts were not provided or in arrears	-	1 166 447
Tenders not re-advertised	-	1 521 656
Procurement of goods and services where no contract is in place with the service provider	-	4 534 849
Bids awarded to suppliers who are in the service of the State or principal shareholders or family of employers in the service of the state	1 515 025	2 033 312
Interest of official and councillor in business	104 300	-
Deviations which were assessed as not being justified and reasonable.	639 816	-
	<b>14 632 323</b>	<b>34 054 727</b>



## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>53. Irregular expenditure (continued)</b>		
<b>Details of irregular expenditure – previous years</b>		
	<b>Disciplinary steps taken/criminal proceedings</b>	
Not submitting the minimum quotations for acquiring goods and services	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	3 180 339
Competitive bidding process not followed	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	686 612
Goods and services were procured without supply chain management regulation of three quotations between R 10, 000 - R 30, 000	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	6 290 557
Bids awarded not in line with the Supply Chain Policy	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	4 366 702
Goods and services not provided in terms of the amount quoted or not the lower quote	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	127 886
Supply chain management policy on declarations of interest for quotation under R 30, 000 not fully adhered to	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	1 431 693
Procurement of goods and services were newspapers advertisements was not within the relevant time frames	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	3 361 930
Procurement of goods and services where no contract is in place with the service provider	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	4 534 849
Bids awarded to suppliers who are in the service of the State or principal shareholders or family of employers in the service of the state	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	2 033 312
Procurement of goods and services were the suppliers' municipal accounts were not provided or in arrears	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	1 166 447
Tenders not re-advertised	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	1 521 656
Original tax clearance certificate were not provided and tax clearance expired	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	3 793 590
One instance of a supplier prohibition that is a legitimate company with a prohibited shareholder not detected	The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.	1 559 154
		<b>34 054 727</b>

### 54. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:



## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>54. Reconciliation between budget and statement of financial performance (continued)</b>		
Net deficit per the statement of financial performance	(75,230,129)	(52,983,790)
<b>Adjusted for:</b>		
Fair value adjustments	(90,280)	(148,503)
Impairments recognised / reversed	95,804,024	43,155,573
Loss on the sale of assets	-	(28,844)
Increases / (decreases) in provisions landfill sites	(225,624)	201,430
Increases/(decreases) in leave and bonus provisions	1,142,333	460,979
Increases/(decreases) in Employee benefits	1,377,000	95,000
<b>Net surplus (deficit) per approved budget</b>	<b>22,777,324</b>	<b>(9,248,155)</b>
<b>55. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription/fee	30,096	28,474
Amount paid - current year	(30,096)	(28,474)
	-	-
<b>Material losses</b>		
Electricity losses	4,318,449	5,084,776
Non-revenue water losses	607,969	479,463
	<b>4,926,418</b>	<b>5,564,239</b>
<b>Electricity losses</b>		
<p>Electricity losses were 8.51% (2013: 11.44%) consisting out of technical and non-technical losses. Technical losses of electricity are inherent to the supply of electricity via lines, conditions/status and age of electricity networks, weather conditions and loads on the system. Non-technical losses is mainly theft, vandalism and cable bringing which can largely contribute to losses.</p>		
<b>Non-revenue water losses</b>		
<p>In the current year, the water losses consisted of bulk water reticulation lost of 14.23% (2013: 13.36%). The percentage unaccounted for water between the treatment plant and points of connection from reservoirs of meter bulk system is mainly due to metering inefficiencies. Technical losses are constraints and infrastructure that bursts and leaks in the reticulation systems.</p>		
<b>Audit fees</b>		
Current year fee	4,451,839	3,257,364
Amount paid - current year	(2,126,773)	(3,102,123)
Amount paid - previous years	(155,241)	-
	<b>2,169,825</b>	<b>155,241</b>

## Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>55. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>PAYE and UIF</b>		
Current year fee	6,707,485	5,108,416
Amount paid - current year	(6,087,177)	(5,108,416)
	<b>620,308</b>	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription/fee	10,971,505	8,687,833
Amount paid - current year	(9,494,729)	(8,687,833)
	<b>1,476,776</b>	-
<b>VAT</b>		
VAT receivable	1,763,881	3,469,164
VAT payable	14,844,053	17,945,945
	<b>16,607,934</b>	<b>21,415,109</b>

VAT output payables and VAT input receivables are shown in note 5.

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