

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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44. Prior period errors (continued)

Consumer and Other Debtors.

Prior year adjustment consists of the interest on government debtors that were written off as recommended by treasury the interest that were charge since 2001 to 2008. All adjustment related to consumer debtors and other receivables.

Reversal of July 2013 billing amounts of R 14,126.69 were include and therefore reverse against accumulating surplus.

Irregularities in the write off of Consumer Debtors had occur and was only discovered by management after the financial year. The reversal was made prior year of R 24,261.50.

Employee cost benefits

Long service benefit awards are being given to employees of the municipality. In the past there were no provision made under GRAP 25, hence this ommision result in the retrospective restatement of the provision of employee benefit cost. The municipality appointed acturial to calculate the municipalities liability as at 2012 and 2013.

Property, plant and equipment

Newly found items that were discovered after a asset verification was performed and are therefore accounted for in accumulating surplus.

Land to the value of R6,162,381 were included in the land register on the bases of the valuation roll that were last updated in 2008. This land is not longer owned by the municipality.

In addition to the above property with a value of R161,838.30 was incorrectly written off in the previous year to account for ownership of land with the deeds register.

Investment

Investment held at Old Mutual were incorrectly written off in the previous financial year.

General expense

Once of connection charges in relation to the Grainfield Chicken (Pty) Ltd loan incurred.

Finance cost

Incurred finance cost as a result of the loan from Grainfield Chicken (Pty) Ltd.

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45. Comparative figures

Certain comparative figures have been reclassified.

As a result of the prior year restatement 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

Receivables from non-exchange transactions	6 078 201	4 059 701
Property, plant and equipment	618 313 028	625 266 787
Payables from exchange transactions	20 364 854	20 159 120
Other financial liabilities	13 270 832	9 154 440
Provision	6 289 757	3 869 757
Investments	4 174 208	3 828 275
Receivables for exchange transaction	60 069 845	60 045 584

Statement of Financial Performance

Personnel cost	47 067 072	46 120 645
Remuneration of councillors	4 338 252	4 826 985
General expense	24 965 893	34 348 715

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45. Comparative figures (continued)

Receivables from non-exchange transactions.

As part of the loan from Grainfield Chicken there was a deposit paid to Eskom of R 2,018,500.

Property, plant and equipment.

Previously the land register include land which are being sold to the community and therefore qualified as Non-current assets held for sale (Refer to note 14). The difference in the Land of R 2,583,593 is therefore disclose in the current financial year under Non-current assets held for sale.

Infrastructure under Property, plant and Equipment include additions as a result of the loan agreement between Grainfield Chicken (Pty) Ltd as the current electricity network were expanded on behalf of the municipality. The addition of R 1,630,376.

Land to the value of R6,162,381 were included in the land register on the bases of the valuation roll that were last updated in 2008. This land is not longer owned by the municipality.

In addition to the above property with a value of R161,838.30 was incorrectly written off in the previous year to account for ownership of land with the deeds register.

Payables from exchange transactions.

Refer to note 44.

Other financial liabilities.

In the previous year there were a loan agreement between Grainfield Chicken and the municipality which only come effective upon their usage of electricity supply to there operation from July 2012.

Provision.

Refer to note 44.

Employee related cost.

Previous year Other and Telephone cost were incorrectly allocated to general expenses. The difference of R 457,694 are now included under Employee related cost in the current year.

Remuneration for councillors.

In the previous year this figure were presented with the departmental cost structure and include salaries paid to the mayors personal assistant and secretary. In the current year the amount decrease because these salary cost are allocated under Personnel Cost.

General expenses.

Refer to above Employee related cost.

Contracted services are now presented as a seperate line item on the face of the statement of financial performance which was previously under general expenses.

Investments.

Investment held at Old Mutual were incorrectly written off in the previous financial year.

Receivables for exchange transaction.

The adjustment against receivables in the prior year of R 24,267 for the irregularities dicovered after financial position adjustable events.

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46. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member 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 19, cash and cash equivalents disclosed in note 8, 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 councils the policies and systems are reviewed regularly to reflect changes in the municipalities 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.

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46. Risk management (continued)

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 not funded with excessive loans, but have a variety of short term investment and is always in search of optimal return of investments.

Interest rate risk sensitivity analysis

The susceptibility of the entity's financial performance to changes in interest rates can be illustrated as follows:

Fixed rates agreements were not included in the analysis. Investment and loan balances at year was used to calculate the expected return for future periods and analysed against current returns.

Interest income

Interest rate increase of 75 basis points	21 703	113 220
Interest rate decrease 50 basis points	(14 468)	(75 480)

Interest expense

Interest rate increase of 75 basis points	34 631	19 193
Interest rate decrease 50 basis points	(22 778)	(12 752)

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46. 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 management. 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	2013	2012
Investments	4 282 973	4 174 208
Receivables from exchanges	69 785 812	60 069 845
Receivables from non-exchange	10 044 888	6 078 201
Cash and cash equivalents	3 698 369	17 128 369

Investments

The Municipality shall execute a cession to the benefit of the DBSA on its Standard Bank fixed deposit investment of R 3,639,959

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	15 153 427	20 364 854
Other financial liabilities	12 765 548	13 270 832

47. Events after the reporting date

Irregularities in the write off of Consumer Debtors had occur and was only discovered by management after the financial year. The reversal was made as this were considered as adjustable events after financial position as this occurred during the year and also in the prior year.

The adjustment in the current year amounted to R943,734.75 (2012: 24,261.50).

Legal matters reported as contingencies at year end have been recently settled. Khovongo Construction have been paid a settlement amount of R 78,347.80. Mr MM Tshabalala on behalf of Nketoana Development was paid an amount of R 29,000.

Unspent Conditional Grants has been claimed to be reverted back to the National Revenue Fund as the amount was rolled over for more than one financial year. This is a adjustable event after financial position and a creditor of R 484,000 for the benefit of National Treasury has been raised.

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Figures in Rand	2013	2012
48. Unauthorised expenditure		
Opening Balance	113 406 283	91 976 261
Unauthorised expenditure	31 166 223	21 430 022
Approved or condoned by council - previous years	(44 135 955)	-
	100 436 551	113 406 283

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.

49. Fruitless and wasteful expenditure

Opening balance	198 153	137 898
Interest and penalties: charges on late payment of VAT return	-	28 070
Interest charges on outstanding invoices	129 748	32 185
Termination of contracts - Compensations paid	152 742	-
legal cost paid - bargaining cost	6 230	-
Penalty fees: Investment call before their maturity	22 497	-
Termination of contract of Municipal Manager - Settlement for early termination	224 973	-
	734 343	198 153

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

Current year interest were paid to 3 suppliers and therefore regarded as fruitless and wasteful expenditure. This is also disclose as non- compliance under note 52.

50. Irregular expenditure

Opening balance	17 550 525	8 922 579
Add: Irregular Expenditure - current year	15 757 579	8 627 946
Add: Irregular Expenditure - prior year	2 111 683	-
	35 419 787	17 550 525

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Figures in Rand	2013	2012
50. Irregular expenditure (continued)		
Analysis of expenditure awaiting condonation classification		
Not submitting the minimum quotations for acquiring goods and services.	2 764 951	388 713
Goods and service not provided in terms of the amount quoted.	90 987	182 020
Competitive bidding process not followed.	686 612	277 560
Goods and services were procured without supply chain management regulation of three quotation between R2,000 - R 10,000.	-	24 791
Supply chain management policy on declarations of interest for quotation under R 30,000 not fully adhered to.	702 467	440 481
Supply chain management policy on declaration of interest for quotation under R 200,000 and no Tax clearance certificates submitted.	-	1 603 786
Deviations not in line with the deviation criteria in term of supply chain management regulations.	-	148 000
One instance of a supplier prohibition that is a legitimate company with a prohibited shareholder not detected.	1 559 154	377 775
Competitive bidding process not followed previous years.	-	5 184 820
Goods and services were procured without supply chain management regulation of three quotation between R10,000 - R 30,000.	3 165 027	-
Procurement of goods and service were news papers advertisements was not within the relevant time frames.	577 843	-
Bids awarded not in line with the Supply Chain Policy.	3 344 521	-
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 service were no contract is in place with the service provider.	256 285	-
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.	2 033 312	-
	17 869 262	8 627 946

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Figures in Rand	2013	2012
50. Irregular expenditure (continued)		
Details of irregular expenditure – previous years		
	Disciplinary steps taken/criminal proceedings	
Not submitting the minimum quotations for acquiring goods and services.	under investigation	388 713
Goods and service not provided in terms of the amount quoted.	under investigation	182 020
Competitive bidding process not followed.	under investigation	277 560
Goods and services were procured without supply chain management regulation of three quotation between R2,000 - R 10,000.	under investigation	24 791
Supply chain management policy on declarations of interest for quotation under R 30,000 no fully adhered to.	under investigation	440 481
Supply chain management policy on declaration of interest for quotation under R 200,000 and no Tax clearance certificates submitted.	under investigation	1 603 786
Deviations not in line with the deviation criteria in term of supply chain management regulations.	under investigation	148 000
One instance of a supplier prohibition that is a legitimate company with a prohibited shareholder not detected.	under investigation	377 775
Competitive bidding process not followed previous years.	under investigation	5 184 820
		8 627 946

The full extent of irregularities as disclosed in the above note is still in the process of being investigated by the municipality.

51. Reconciliation between budget and statement of financial performance

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

Net deficit per the statement of financial performance	(36 043 204)	(4 476 631)
Adjusted for:		
Fair value adjustments	(148 503)	(31 315)
Impairments recognised / reversed	43 155 573	50 593 628
Gain/(loss) on the sale of assets	(28 844)	198 500
Increases / decreases in provisions landfill sites	201 430	3 542 327
Increases / decreases in leave and bonus provisions	460 979	618 070
Increases / decreases in post employment benefit	95 000	-
Net surplus per approved budget	7 692 431	50 444 579

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52. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	28 474	4 777
Amount paid - current year	(28 474)	(4 777)
	-	-
Material losses		
Electricity losses	5 084 776	2 733 207
Non-revenue water losses	479 463	9 874 227
	5 564 239	12 607 434
Electricity losses		
<p>Electricity losses were 11.44% (2012: 16.16%) 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>		
Non-revenue water losses		
<p>In the current year, the water losses consisted of bulk water reticulation lost of 13,36% (2012: 17.31%). 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>		
Audit fees		
Current year subscription / fee	3 257 364	3 386 094
Amount paid - current year	(3 102 123)	(3 386 094)
	155 241	-
PAYE and UIF		
Opening balance	-	320 642
Current year subscription / fee	5 108 416	4 170 252
Amount paid - current year	(5 108 416)	(4 170 252)
Amount paid - previous years	-	(320 642)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	8 687 833	6 842 428
Amount paid - current year	(8 687 833)	(6 842 428)
	-	-

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52. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	(3 469 164)	(3 502 201)
VAT payable	21 094 233	15 036 712
	17 625 069	11 534 511

VAT output payables and VAT input receivables are shown in note 16.

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

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52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days	Outstanding more than 90 days	Total
Du Preez SJS	415	-	415
Henning SG	560	-	560
Malindi S	314	-	314
Mofokeng PP	467	-	467
Mokoena KA	391	-	391
Moloedi PM	314	-	314
Mosia M	8 599	10 343	18 942
Mphaka MR	314	-	314
Nakedi MT	314	-	314
Nhlapo LG	9 424	13 461	22 885
Nkomo P	477	-	477
Radebe TP	5 596	7 010	12 606
Semela MS	8 108	9 885	17 993
Tshabalala NS	624	-	624
Moshoadiba P	390	-	390
	36 307	40 699	77 006

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Henning SG	488	-	488
Nkomo P	450	-	450
Mphaka M	336	-	336
Nhlapo G	1 073	17 087	18 160
Moloedi M	915	2 328	3 243
Radebe T	1 113	7 000	8 113
Mofokeng P	371	-	371
Nakedi M	305	-	305
Mokoena K	1 136	6 333	7 469
Mosia M	914	10 378	11 292
Tshabalala N	2 151	43 794	45 945
Blignaut M	3 621	-	3 621
Moshoadiba P	1 290	8 772	10 062
Semela M	1 039	10 461	11 500
Malindi MS	914	572	1 486
	16 116	106 725	122 841

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52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager.

Incidents (Reason for deviation)

Salcorp 101 CC (Only one suppliers responded and no time to re-advertised)	60 600	-
Sinqoba Simunye Managemen (Urgent)	77 000	-
Tshiwi Construction (Only one supplier responded and no time to re-advertised)	459 792	-
Vrystaat Kooperasie Beperk (Urgent)	57 400	-
Tlaletso Consultants CC (Only two suppliers responded and no time to re-advertised)	185 000	-
Batjcor (Urgent)	50 500	-
Inyameko Trading 1405 CC (Only two suppliers responded and no time to re-advertised)	98 989	-
Molaudi Trading Enterprise (Only one suppliers responded and no time to re-advertised)	72 598	-
	1 061 879	-

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.

Name of person	Institution of State	Amount	Suppliers name
LL Motholo	SAPS	6 000	Aslin Construction and Projects
S Mbele	Transnet limited	39 000	ESOH Consulting
M Ngwenya	Free State: Education	27 900	L M T Catering
Mr Leutsoa	Gauteng: Education	1 023 306	Mamatse Trading
NJ Lehasa	SAPS	4 200	N & T Mokoena Civil Construction
ME Mofokeng	Free State: Education	147 000	Super Africa Media Projects
MR Thebele	Small Enterprise Development Agency	537 296	Thibella Trading

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52. Additional disclosure in terms of Municipal Finance Management Act (continued)			
SP Matobako	DBSA	185 000	Tlaletso
EM Nkitseng	Free State:		Consultants
J Hlahane	Education		
	Free State		
	Education		
DF Molemohi	South African	63 565	Ucango
	Bureau of		Business
	Standards		Enterprise
Total		2 033 267	

53. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	13 193 334	13 701 157
	13 193 334	13 701 157
Cash set aside for the repayment of long-term liabilities	(3 639 960)	(3 495 199)
	9 553 374	10 205 958

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

54. Actual operating expenditure versus budgeted operating expenditure

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

55. Non-Compliance in term of MFMA

Payments not made within 30 days

Payments were identified as not being made within 30 days of receiving the relevant invoice or statement.

The above results in non-compliance with section 65(2)(e) of the MFMA (No.56 of 2003).

Investment disclosure

The municipality did not disclose a summary of all investments held at the end of the financial year.

The above results in non-compliance with section 125 (2)(b) of the MFMA (No.56 of 2003).

Other Non-Compliance matters identified during the Audit

Unauthorised, Irregular and Fruitless and wasteful expenditure- No Section 32(4) reports sent to required parties.

No Risk committee in place.

Funds and Reserves: Unspent conditional grants not held in separate bank or investment accounts.

Position of SCM manager was vacant during the year.

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55. Non-Compliance in term of MFMA (continued)

Register of bids not on website.

Compliance Oversight report was not made public once tabled in council.

Bid register and bid results not published.

Newspaper adverts are not within the time frame.

Bid adjudication committee award not in line with SCM policy.

Incorrect information submitted to National and Provincial Treasury regarding competency levels.

Background checks not conducted on appointments made during the year.