



cogta

Department:
Cooperative Governance and Traditional Affairs
PROVINCE OF KWAZULU-NATAL



Cooperative Governance and Traditional Affairs

Traditional Levies and Trust Accounts

ANNUAL REPORT

2016/17

BACK TO BASICS: SERVING OUR COMMUNITIES BETTER



**ANNUAL FINANCIAL STATEMENTS
FOR TRADITIONAL LEVIES AND TRUST ACCOUNT
FOR THE YEAR ENDED
31 MARCH 2017**



Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

GENERAL INFORMATION

Nature of business and principal activities	:	Traditional Levies and Trust Account
Accounting Officer	:	Mr T. Tubane
Chief Financial Officer	:	Mr B.W Ndlovu
Registered office	:	Natalia Building 330 Langalibalele Street Pietermaritzburg 3200
Postal address	:	Private Bag X9078 Pietermaritzburg 3200
Bankers	:	Absa Bank Limited Ithala Limited

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

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Abbreviations

SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards

Traditional Levies and Trust Account

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FOREWORD



Since the advent of our democracy, South Africans have overwhelmingly expressed a view that the institution of traditional leadership has an important role to play in deepening and enriching democratic governance at a local level. As Cogta, we therefore recognise that traditional leadership is a crucial partner in our fight against poverty, homelessness, illiteracy, and the promotion of good governance throughout all the corners of our province.

The task of building a democratic state requires that the values enshrined in our Constitution are shared by all South Africans. The participation and contribution of traditional leaders, traditional authorities to this historic process of transforming the development and spatial patterns in our society in order to address speedily the triple challenges of poverty, inequality and unemployment has been truly remarkable. In this collective effort, the contribution of traditional leadership, working closely with government, in the reconstruction and development of rural areas has been equally exceptional.

As we table this report, the Institution of traditional leadership is gearing itself up for its reconstitution and reconfiguration of Local, Provincial and National Houses. This process will see democracy at work within the institution of traditional leaders as amakhosi will once again

elect each other and ensure that those they feel are capable to lead their interest will represent them at both the Provincial House and National House of Traditional Leaders.

This is clear proof that democracy is part and parcel of the DNA within the Institution of our forebears. Indeed we have come a long way, whereas a mere twenty three years ago, the relationship between the institution of traditional leadership and the then government was characterized by animosity and patronization, today this relationship is characterized by mutual respect, trust and a willingness to learn from one another, all of us driven by the practical need to play our role in ensuring the development of our communities and the reconstruction of our country.

We are convinced that it is this realization between the state and the institution of traditional leadership that the two institutions need to work in concert in order to address the challenges that face our people which have led to us reaching the many landmark points we have reached in the 23 years of democratic government. We are also convinced that through continuous co-operation and mutual respect we will reach even bigger milestones. In this regard, we again want to praise the leadership qualities displayed by amakhosi as we continue with the journey to restore the dignity of the institution of traditional leaders in its entirety.

As a department whose role is to work together with the institution of traditional leadership in our province, we work hard to ensure that this historic institution remains relevant by continuing to lead our communities. The Traditional Councils that currently serve our communities are a symbol of our tireless efforts to strengthen this institution as most of our communities are held together by men and women who participate in these councils and deal with the day-to-day issues that arise in them.

The institution of traditional leadership is expected to comply with all the laws of the land. In its administration of the Traditional Levies and Trust Account, all Traditional Councils are naturally required to adhere to the injunctions of the Public Finance Management Act. In this regard, proper record keeping is an important aspect of financial management and our Traditional Councils are required to maintain the highest of standards

Traditional Levies and Trust Account

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FOREWORD

when it comes to record keeping. It is most encouraging that we are gradually observing encouraging trends of improvement in the governance of all our traditional institutions as reflected in this report.

As Cogta, we offer all our Traditional Councils targeted assistance in the capacity-building needs of individual amakhosi and the day-to-day operations of the Traditional Councils. Through these engagements, we have managed to encourage a fresh spirit of financial accountability which is a prerequisite for good and clean governance.

It is in line with this mandate that I hereby present to the KwaZulu-Natal Provincial Legislature the 2016-2017 general report summarising the financial statements of the Traditional Levies and Trust Account for the financial year ended 31 March 2017.

I wish to thank the traditional leaders, Traditional Council members and Traditional Council secretaries for their diligent efforts towards fulfilling the department's vision of sound financial management within the Traditional Councils' sometimes challenging operating environment.



Ms Nomusa Dube-Ncube, MPL
MEC: Cooperative Governance and Traditional Affairs
KwaZulu-Natal Provincial Government

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

ACCOUNTING AUTHORITY'S REPORT

1. Review of activities

Main business and operations:

The Traditional Levies and Trust Account operates as a bank account within which the financial operations of the traditional councils, in the province of KwaZulu-Natal, are managed.

The traditional councils collect monies, which are voluntary in nature, from the communities residing within their respective boundaries, deposit monies collected and honour their obligations through this bank account. In turn the Traditional Levies and Trust Account is managed by the Department of Co-operative Governance and Traditional Affairs, in terms of the KwaZulu-Natal Traditional Leadership and Governance Act No: 5 (2005).

A number of challenges exist as far as the completeness of revenue is concerned. One of the main root causes for this challenge is the fact that the traditional councils' revenue system is not regulated and dependent on voluntary receipts as a main stream of income. The department has developed an internal control system to ensure that a sound financial management environment prevails.

Due to the fact that the levies which are collected from the traditional communities are voluntary in nature, an accrual basis of accounting could not be utilised as the revenue is dependent on the actual receipt recorded. Hence it was impractical to project completeness of revenue that is disclosed in the financial statements.

The department has invested R26.8 million (2015/2016: R27.1 million) with Ithala Limited and the total cash and cash equivalent of R2.8 million (2015/2016: R1,2 million) is banked with ABSA Bank. Total Interest amount of approximately R2 million (2015/2016 : R1,6 million) received from these investments is capitalized with the intention of distributing them annually to the respective traditional councils.

The department has generated and maintained a GRAP 17 compliant Property, Plant and Equipment register and the resultant effect was to account for such in terms of GRAP 3. The department is still faced with challenges to ensure that all assets are bar-coded and those of a fixed nature are accounted for in the financial year ending 2016/2017.

The Traditional Levies and Trust Account's financial statements have been prepared under the going concern of Generally Recognised Accounting Practice.

2. Asset Management

During the current financial year, the department visited all traditional councils within Kwazulu - Natal Province to physically verify the existence of traditional councils' assets and recording thereof into the movable asset register.

The department transferred immovable assets with a net carrying amount of approximately R61 million (2015/2016 : R205 million) to the Department of Public Works (KwaZulu-Natal).

The asset register gearing ratio process was guided by the provisions of GRAP 17 and 3 KZN Provincial Treasury Regulations on assets.

3. Point of Sale

In terms of prior year's audit opinion issued, the Traditional Levies and Trust Account's revenue completeness assertion could not be verified because the sources of revenue are voluntary in nature.

Certain traditional councils are still using a manual receipt and cash book recording system and as a result thereof risks associated with financial fraud, receipt manipulation and cash book reconciliation errors are inherently high. To mitigate the aforementioned risks, the Department has established a strong internal control environment where all traditional councils are subjected to strengthen Independent Internal Controls and Risk Management Procedures, Internal Audit by the Kwazulu-Natal Provincial Treasury and External Audit by the Office of The Auditor General (KZN).

During the 2014/2015 financial year, the Department introduced an automated GRAP compliant Accounting and Financial Management Solution in the form Pastel Point of Sale. A total of 110 traditional councils have benefited from this project which also resulted in improved ICT infrastructure at the respective traditional councils through the delivery of new desktop computers and training of traditional councils secretaries on various MicroSoft Office modules and Pastel Point of Sale Solution. The Department will continue to roll out the Point of Sale project in phases due to budget constraints.

Traditional Levies and Trust Account

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ACCOUNTING AUTHORITY'S REPORT

4. *Events after reporting date*

There were no significant post reporting date events noted.

5. *SCOPA*

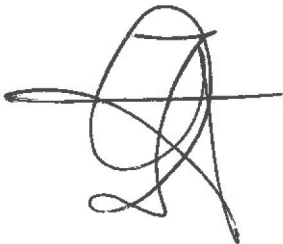
Ongoing reports have been submitted to SCOPA.

6. *Prior year's modification to the audit report*

Prior year errors have been prepared and forms part of the notes to the annual financial statements in compliance with GRAP 3.

7. *Approval*

The annual financial statements have been approved by the accounting authority.



ACTING HEAD OF DEPARTMENT
DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS
MR T TUBANE

AUDITOR'S REPORT FOR THE YEAR ENDED 31 MARCH 2017 TRADITIONAL LEVIES AND TRUST ACCOUNT

Report of the auditor-general to KwaZulu-Natal Provincial Legislature on Traditional Levies and Trust Account

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Traditional Levies and Trust Account set out on pages 13 to 33, which comprise the statement of financial position as at 31 March 2017, and the statement of financial performance, statement of changes in net assets and cash flow statement, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Traditional Levies and Trust Account as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the KwaZulu-Natal Traditional Leadership and Governance Act, 2005 (Act No. 5 of 2005) (KZNLTGA) and the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for opinion

3. 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.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

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

Restatement of corresponding figures

7. As disclosed in note 17 to the financial statements, the corresponding figures for the accumulated surplus, government grants and subsidies, property, plant and equipment as well as transfers and subsidies at 31 March 2016 have been restated as a result of errors discovered during 2017 in the financial statements of the Traditional Levies and Trust Account at, and for the year ended, 31 March 2016.

Responsibilities of the accounting officer for the financial statements

8. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the PFMA and the KZNLTGA 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.
9. In preparing the financial statements, the accounting officer is responsible for assessing the entity'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 there is an intention either to liquidate the entity or to cease operations, or there is no realistic alternative but to do so.

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

10. 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.
11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Performance information reporting

12. The entity does not prepare a report on its performance against predetermined objectives, as it is not required to do so in terms of its specific legislation.

Report on audit of compliance with legislation

Introduction and scope

13. 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 compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
14. The material finding in respect of the compliance criteria for the applicable subject matters is as follows:

Annual financial statements

15. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 8.2 of the KZNLTGA and section 55(1)(b) of the PFMA. Material misstatements of government grants and subsidies, property, plant and equipment as well as transfers and subsidies, identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

Other information

16. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the accounting officers' report. The other information does not include the financial statements or the auditor's report thereon.
17. My opinion on the financial statements and the finding on compliance with legislation does not cover the other information, and I do not express an audit opinion or any form of assurance conclusion thereon.
18. 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 or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

19. I considered internal control relevant to my audit of the financial statements and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matter reported below is limited to the significant internal control deficiencies that resulted in the finding on compliance with legislation included in this report.

Financial management

20. The repeated material misstatements in financial reporting is largely attributable to poor controls over records management, together with inadequate time being allocated to the analysis and diligent review of financial records and reports. Moreover, management did not respond with the required urgency to our consistent messages about addressing these internal control deficiencies.

Auditor - General

Pietermaritzburg

31 July 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

Financial statements

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 on the **Traditional Levies and Trust Account’s** (entity) compliance with respect to the selected subject matters.
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 entity’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 entity’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 the entity to cease operating 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 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, where applicable, related safeguards.

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2017**

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	8	809 778	-
Cash and cash equivalents	3	2 815 949	1 218 559
Receivables from exchange transactions	4	201 278	322 851
		3 827 005	1 541 410
Non-Current Assets			
Investments	5	26 829 311	27 117 923
Property, plant and equipment	6	16 784 404	84 352 209
Intangible assets	7	271 831	742 512
		43 885 546	112 212 644
Total Assets		47 712 551	113 754 054
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	751 721	945 792
Total Liabilities		751 721	945 792
Net Assets		46 960 830	112 808 262
Accumulated surplus		46 960 830	112 808 262

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Levies		244 618	276 847
Cultural Activities		202 350	272 935
Customary fees		5 903 584	6 033 731
Interest received - investment		2 018 895	1 623 120
Land Utilization		3 141 306	3 029 861
Legal Fees earned		3 410	3 800
Miscellaneous other revenue		322 538	648 285
Fines		570 910	493 260
Rental income		270 504	158 443
Royalties received		120 630	89 790
Stock Permit		85 210	107 920
Total revenue from exchange transactions		12 883 955	12 737 992
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies		33 467 637	46 505 611
Total Revenue	10	46 351 592	59 243 603
Expenditure			
Employee related costs	12	(9 947 285)	(9 783 256)
Depreciation and amortisation	13	(6 119 208)	(9 181 107)
Impairment loss/ Reversal of impairments	14	(192 937)	-
Transfers and Subsidies	11	(32 099 380)	(25 342 948)
General Expenses	15	(1 555 395)	(1 997 691)
Total expenditure		(49 914 205)	(46 305 002)
Operating (deficit) surplus		(3 562 613)	12 938 601
Loss on assets disposal		(62 284 819)	(1 427)
(Deficit) surplus for the year		(65 847 432)	12 937 174

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Revaluation Reserve	Accumulated Surplus	Total Net Assets
Opening Balance as previously reported	209 942 762	79 146 575	289 089 337
Adjustments			
Prior year adjustments	-	13 023	13 023
Balance at 01 April 2015 as restated*	209 942 762	79 159 598	289 102 360
Changes in net assets			
Change in accounting policy	-	(216 652)	(216 652)
Prior Period Error	-	(428 691)	(428 691)
Current year movement	(209 942 762)	21 356 833	(188 585 929)
Net income (losses) recognised directly in net assets	(209 942 762)	20 711 490	(189 231 272)
Surplus for the year	-	12 937 174	12 937 174
Net annual movement	(209 942 762)	33 648 664	(176 294 098)
Total changes	(209 942 762)	33 648 664	(176 294 098)
Restated Balance at 01 April 2016	-	112 808 263	112 808 263
Surplus for the year	-	(65 847 433)	(65 847 433)
Total changes	-	(65 847 433)	(65 847 433)
Balance at 31 March 2017	-	46 960 830	46 960 830

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

CASH FLOW STATEMENT

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		10 837 739	11 114 862
Interest receipts		1 804 508	1 466 539
		12 642 247	12 581 401
Payments			
Employee costs		(9 947 285)	(9 783 256)
Suppliers		(1 256 200)	(1 669 634)
		(11 203 485)	(11 452 890)
Net cash flows from operating activities		1 438 762	1 128 511
Cash flows from investing activities			
Trade and other receivables		-	(27 200)
Net movement in investments		158 628	(1 490 592)
Net cash flows from investing activities		158 628	(1 517 792)
Cash flows from financing activities			
Trade and other payables		-	243 859
Net increase/(decrease) in cash and cash equivalents		1 597 390	(145 422)
Cash and cash equivalents at the beginning of the year		1 218 559	1 363 981
Cash and cash equivalents at the end of the year	3	2 815 949	1 218 559

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

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

These annual 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.

The principal, accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.2 Going concern assumption

These annual financial statements have been prepared on the assumption that all traditional councils will continue to operate as a going concern for at least the next 12 months.

1.3 Comparative figures

When the presentation or classification of items in the annual financial statements is amended prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as it is practical, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as it is practicable, and the prior year co-operatives are restated accordingly.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use in the supply of services, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment acquired after the valuation date 31 March 2012, are initially recognised as an asset on acquisition date and are recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of it to be operating in the manner intended by the traditional council.

Where significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation / Amorisation and Impairments

Depreciation is calculated on the depreciable amount, using the straight - line method over the estimated remaining useful lives of the assets as at the revaluation date..

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

ACCOUNTING POLICIES***1.4 Property, plant and equipment (continued)***

Heading	Policy
Inverters	5 years
Computer Equipment	5 years
Furniture	5 years
Batteries	2 years
Office Equipment	5 years
Office Safes	30 years
Generators	5 years
Solar Panels	25 years
Bins and Containers	20 years

Assets acquired after revaluation date (01 April 2012 onwards)

These assets are initially recognised in terms of GRAP 17 paragraph 07 and measure the cost in compliance with GRAP 17 paragraph 17.

After initial recognition, these assets are carried at the initial cost less accumulated depreciation and impairment loss GRAP 17(33). GRAP 17 property, plant and equipment - Revised Version March 2012.

Derecognition

Items of property, plant and equipment are derecognised when an asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

1.5 Financial instruments**Initial recognition**

Financial instruments are initially recognised at the fair value.

Subsequent measurement of financial assets and financial liabilities

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held - to maturity, loans and receivable, or available for sale.

Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short - term deposits invested in registered commercial banks.

Trade and other receivables

Trade and other receivables are categorised as financial assets: accrued interest from investments initially recognised at fair value and subsequently carried at amortised cost .

An impairment of trade receivable is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of loss is recognised in the Statement of Financial Performance within operating expenses.

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

ACCOUNTING POLICIES

1.5 Financial instruments (continued)

Trade Payables and Borrowings

Financial liabilities consists of accrued expenditure and deposits not yet allocated.

Cash and cash equivalents

Cash includes cash with banks (including all deposits).

1.6 Fruitless and wasteful expenditure

Fruitless expenditure is the expenditure that 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.

1.7 Intangible assets

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

The entity 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.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Intangible asset are initially measured at cost and amortised over two years.

Item	Useful life
Computer software	2 years

Intangible assets are de-recognised:

- * on disposal; or
- * when no future economic benefits or service potential are expected from its use or disposal.

1.8 Provisions and contingencies

Provisions are recognised when:

- * the entity has a present or constructive obligation as a result of a past events ;
- * it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

1.9 Revenue from exchange transactions

Revenue from exchange transactions refers to the revenue that accrued to the traditional council directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from the provision of services and sale of goods is recognised when substantially all the risk and rewards are passed to the consumer.

Revenue arising out of situations where the traditional council acts on behalf of a third party is limited to the amount of any fee or commission payable to the traditional council as compensation for executing the agreed services.

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

ACCOUNTING POLICIES

1.10 Revenue from non-exchange transactions

Revenue from non - exchange transactions refers to transactions where the traditional council receive revenue without directly giving approximately equal value in exchange.

Revenue from spot fines and summonses are recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Voluntary revenue from public contributions and donations are recognised when all conditions associated with the contribution have been met.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the traditional council.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the entity 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.

The entity 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.

1.11 Inventory

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition. Subsequently inventories are measured at the lower of cost and net realisable value. 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. The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories 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 is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity. When inventories are sold, the carrying amounts of those inventories are recognised as an expense in

Traditional Levies and Trust Account

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ACCOUNTING POLICIES

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

1.12 Grants, Transfers and Donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset.

Traditional Levies and Trust Account

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2. New standards and interpretations**2.1 Standards and interpretations not yet effective or relevant**

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected Impact:
GRAP 20: Related parties	01 April 2020	None
GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2020	None
GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2020	None
GRAP32: Service Concession Arrangements: Grantor	01 April 2020	None
GRAP108: Statutory Receivables	01 April 2020	None

3. Cash and cash equivalents

Cash and cash equivalents consist of:		
Bank balances	2 815 949	1 218 559
Current assets	2 815 949	1 218 559
The Traditional Levies and Trust Account has the following bank account:		
Cashbook at the beginning of the year	1 218 559	1 363 981
Cashbook balance at end of year	2 386 506	1 218 559
Bank statement balance at beginning of year	1 218 559	1 363 981

4. Receivables from exchange transactions

Trade Debtors	201 278	322 851
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5. Investments

All investments are with Ithala Development Finance Corporation		
Other Investments	16 829 311	17 117 923
Fixed Deposits	10 000 000	10 000 000
	26 829 311	27 117 923

Traditional Levies and Trust Account

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6. Property, plant and equipment

	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying Value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	66 513 588	(66 513 588)	-	66 513 588	(4 554 816)	61 958 772
Furniture and fixtures	4 062 034	(3 845 202)	216 832	22 349 643	(21 939 679)	409 964
Office equipment	431 947	(352 899)	79 048	6 478 122	(6 312 684)	165 438
Computer equipment	2 422 664	(1 058 331)	1 364 333	3 859 397	(2 448 169)	1 411 228
Batteries	3 863 565	(2 989 176)	874 389	4 584 119	(1 337 035)	3 247 084
Safes	1 109 790	(151 191)	958 599	1 109 779	(111 759)	998 020
Bins and containers	2 891 955	(228 945)	2 663 010	2 968 059	(86 568)	2 881 491
Solar Panel Heating	7 417 990	(469 806)	6 948 184	8 508 871	(198 540)	8 310 331
Generators	3 694 491	(1 234 737)	2 459 754	3 791 715	(440 746)	3 350 969
Inverters	1 785 738	(565 483)	1 220 255	1 832 731	(213 819)	1 618 912
Total	94 193 762	(77 409 358)	16 784 404	121 996 024	(37 643 815)	84 352 209

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6. Property, plant and equipment (continued)**Reconciliation of property, plant and equipment - 2017**

	Opening Balance	Additions	Disposals	Transfers Out	Depreciation	Impairment Loss	Total
Buildings	61 958 772	-	-	(61 050 614)	(908 158)	-	-
Furniture and fixtures	409 964	-	-	-	(193 132)	-	216 832
Office equipment	165 438	-	-	-	(86 390)	-	79 048
Computer equipment	1 411 229	470 935	(2 111)	-	(515 720)	-	1 364 333
Batteries	3 247 084	87 536	(143 858)	-	(2 292 060)	(24 312)	874 390
Safes	998 021	-	-	-	(39 422)	-	958 599
Bins and containers	2 881 490	-	-	-	(148 403)	(70 078)	2 663 009
Solar Panel Heating	8 310 331	-	(1 021 791)	-	(340 355)	-	6 948 185
Generators	3 350 969	-	(66 435)	-	(758 343)	(66 436)	2 459 755
Inverters	1 618 912	-	-	-	(366 546)	(32 111)	1 220 255
Total	84 352 210	558 471	(1 234 195)	(61 050 614)	(5 648 529)	(192 937)	16 784 406

Traditional Levies and Trust Account

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6. Property, plant and equipment (continued)**Reconciliation of property, plant and equipment - 2016**

	Opening Balance	Additions	Disposals	Depreciation	Total
Buildings	257 511 366	15 157 168	(205 119 102)	(5 590 660)	61 958 772
Furniture and fixtures	594 105	-	(1 406)	(182 735)	409 964
Office equipment	251 887	-	-	(86 449)	165 438
Computer equipment	1 389 773	404 655	-	(383 199)	1 411 229
Batteries	-	4 584 119	-	(1 337 035)	3 247 084
Safes	1 035 014	-	-	(36 993)	998 021
Bins and containers	-	2 968 058	-	(86 568)	2 881 490
Solar Panel Heating	-	8 508 871	-	(198 540)	8 310 331
Generators	-	3 791 715	-	(440 746)	3 350 969
Inverters	-	1 832 731	-	(213 819)	1 618 912
Total	260 782 145	37 247 317	(205 120 508)	(8 556 744)	84 352 210

Traditional Levies and Trust Account

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6. Property, plant and equipment (continued)**Property transferred to the Department of Public Works (KZN)****Property that was transferred during the period (Net Book Value):-**

Buildings	61 050 614	205 119 042
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Details of properties**Traditional Administration Centres**

- Additions since purchase or valuation	121 355 990	326 475 032
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Traditional Administration Centres with a Net Book Value of approximately R61 million (2015/2016: R205 million) were transferred to the Department of Public Works (KwaZulu-Natal) in terms of Section 42 of the PFMA.

In giving effect to Section 4 of the Government Immovable Asset Management Act 19 of 2007 (GIAMA), the Traditional Administration Centres were transferred to the custodianship of the Department of Public Works (KwaZulu-Natal). The Department of Public Works (KZN) will henceforth be defined as 'the custodian' and the respective traditional councils will be defined as 'the users'. The Department of Cooperative Governance and Traditional Affairs (KZN) will continue the rehabilitation and maintenance of the Traditional Administration Centres, until such time that an alternative decision is made by relevant authorities. The Gross Value of Traditional Administration Centres transferred to the Department of Public Works (KZN) was approximately R306 million, between 2015/2016 and 2016/2017 financial years.

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7. Intangible Assets

	Cost / Valuation	Accumulated Amortisation and Accumulated Impairment	Carrying Value	Cost / Valuation	Accumulated Amortisation and Accumulated Impairment	Carrying Value
Computer software, other	4 885 115	(4 613 284)	271 831	4 885 115	(4 142 603)	742 512
Reconciliation of intangible assets - 2017				Opening Balance	Amortisation	Total
Computer software				742 512	(470 681)	271 831
Reconciliation of intangible assets - 2016			Opening Balance	Additions	Amortisation	Total
Computer software			1 220 190	143 852	(621 530)	742 512

Traditional Levies and Trust Account

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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8. Inventories

Finished goods	809 778	
Closing balance	809 778	

Inventory refers to batteries in stock as at 31 March 2017.

9. Payables from exchange transactions

Trade payables	434 774	23 396
Deposits not yet allocated	316 947	922 396
	751 721	945 792

[The traditional councils had a total liabilities of R429,443.00. The R328,000.00 represents a total of traditional councils money received and recorded in the entity's bank account but not yet allocated into the individual traditional cashbooks, as at 31 March 2017]

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Annual Financial Statements for the year ended 31 March 2017

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10. Revenue		
Rendering of services	570 910	493 260
Levies	244 618	276 847
Legal Fees earned	3 410	3 800
Royalties received	120 630	89 790
Rental income	270 504	158 443
Miscellaneous other revenue	322 538	648 285
Customary fees	5 903 584	6 033 731
Cultural Activities	202 350	272 935
Stock permits	85 210	107 920
Land Utilization	3 141 306	3 029 861
Interest received - investment	2 018 895	1 623 120
Government grants & subsidies	33 467 637	46 505 611
	46 351 592	59 243 603

The amount included in revenue arising from exchanges of goods or services are as follows:

Rendering of services	570 910	493 260
Levies	244 618	276 847
Legal Fees earned	3 410	3 800
Royalties received	120 630	89 790
Rental income	270 504	158 443
Miscellaneous other revenue	322 538	648 285
Customary fees	5 903 584	6 033 731
Cultural Activities	202 350	272 935
Stock permit	85 210	107 920
Land Utilization	3 141 306	3 029 861
Interest received - investment	2 018 895	1 623 120
	12 883 955	12 737 992

The amount included in revenue arising from non-exchange transactions is as follows:**Taxation revenue****Transfer revenue**

Government grants & subsidies	33 467 637	46 505 611
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Traditional Levies and Trust Account

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11. Transfers and Subsidies**Vote 11**

Operating payments	6 165 021	6 318 139
Consumable supplies	250 151	228 648
Administrative fees	1 147 186	970 378
Rental and hiring	-	2 500
Travel and subsistence	8 871 529	7 179 428
Catering: Departmental activities	2 834 717	2 947 670
Communication (G&S)	3 443 721	3 431 651
Consultants: Business and advisory services	312 150	742 660
Transport provided	33 500	-
Contractors	2 509 731	2 041 287
Advertising	-	15 561
Consumable: Stationery, printing and office supplies	174 817	206 820
Operating leases	1 281 085	1 099 083
Property payments	210 313	159 123
Traditional council members	816 020	-
Agency fees	4 049 439	-
	32 099 380	25 342 948

Transfers and subsidies of capital in nature amounting to R2,4 million (2016: R19,2 million) were received from the Department of Cooperative Governance and Traditional Affairs.

12. Employee related costs

Basic	9 190 117	8 995 824
Bonus	293 986	322 882
UIF	4 678	3 650
Fringe benefit	458 504	460 900
	9 947 285	9 783 256

13. Depreciation and amortisation

Property, plant and equipment	5 648 527	8 559 577
Intangible assets	470 681	621 530
	6 119 208	9 181 107

Traditional Levies and Trust Account

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14. Impairment of assets**The main classes of assets affected by impairment losses of R192 937 are:**

Batteries:	R24 312
Bins and containers:	R70 078
Generators:	R66 436
Invertors:	R32 111

The main events and circumstances that led to the recognition of these impairment losses are as follows:

Damaged assets

15. General expenses

Bank charges	45 603	15 017
Cleaning	18 719	33 864
Donations	5 000	-
Entertainment	57 540	67 322
Minor Assets	-	304 662
Postage and courier	18 960	34 023
Printing and stationery	40 859	27 486
Travel - local	69 701	87 975
Water	63 381	273 771
Reimbursements	27 080	380
Renovations	35 200	41 800
Bursaries	48 708	100 492
Cultural Activities	475 907	961 972
Other expenses	648 737	48 927
	1 555 395	1 997 691

16. Change in accounting policy**Property, plant and equipment**

The useful life of computer equipment and office furniture was estimated in 2012 to between 5 and 3 years respectively. In the current period management has revised their estimate to Computer and equipment 3 years and Office furniture 5 years. The effect of this revision has increased the accumulated depreciation charges for the prior periods by Computer equipment R100 707.00 Office furniture R115 945.00.

There is no tax implication.

The impact on the cash flow statement is nil.

Traditional Levies and Trust Account

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17. Prior period errors

Prior period error is due to an overstatement of depreciation in 2015 financial year which were identified during the 2016/2017 financial year. During the current financial year the Department paid salaries for iziNduna and error has resulted in the change which resulted in a prior year adjustment of R68,149,297.00. Another error was recorded in the Property, plant and equipment that being an error in the recorded depreciation where assets per assets register were wrongly depreciated over various useful lives instead of the numbers of years per the Department's approved policy. The effect of these errors resulted in the prior year audited financials being misstated and these errors have been adjusted for during the current financial year but effected for in the 2015/2016 financial year.

The correction of the errors resulted in adjustments as follows:

Statement of financial position

Cost: Batteries	-	2 343 335
Acc. Dep.: Batteries	-	(705 019)
Cost: Bins and containers	-	922 898
Acc. Dep.: Bins and containers	-	(28 884)
Cost: Generators	-	1 788 718
Acc. Dep.: Generators	-	(214 770)
Cost: Invertors	-	46 938
Acc. Dep.: Invertors	-	(12 345)
Cost : Solar Panel	-	(3 008 134)
Acc. Dep.: Solar Panel	-	61 334
Cost : Safes	-	(30 267)
Acc. Dep.: Safes	-	18 376
Cost : Computer equipment	-	(1 238 588)
Acc. Dep.: Computer equipment	-	1 374 674
Cost : Furniture and fixtures	-	(190 673)
Acc. Dep.: Furniture and fixtures	-	344 590
Accumulated Surplus	-	(428 691)
Trade receivables	-	12 770
Trade payables	-	193 152

Statement of Financial Performance

Transfers and subsidies - expenditure	-	(70 243 052)
Government grants and subsidies - revenue	-	68 149 297

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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18. uMzimkhulu traditional accounts

The entity has not included the financial analysis of the 10 tribal authorities from uMzimkhulu due to an ongoing process dealing with uBukhosi and the recognition thereof in terms of section 6 of KwaZulu - Natal Traditional Leadership and Governance Act No. 5 of 2005.

The financial statements for uMzimkhulu Tribal Authorities are attached as Annexure A of this report.

19. Fruitless and wasteful expenditure

Opening balance	1 361	-
Addition	1 019	1 361
	2 380	1 361

Fruitless and wasteful expenditure relate to interest incurred and paid for on ESKOM invoices and other miscellaneous expenses.

Traditional Levies and Trust Account

Annual Financial Statements for the year ended 31 March 2017

LOCAL HOUSE OF TRADITIONAL LEADERS**I. Custom Schedule**

Name	Local House	Contact Number
Thandekile Conco	Ilembe (KwaDukuza)	Tel: 032 551 1035
		Fax: 032 552 1095
		Cell: 072 981 8408
Khethekile Mathonsi (Director: TIS)	Harry Gwala (Ixopo)	Tel: 033 897 5652
		Fax: 033 897 5736
		Cell: 083 363 1009
Zimbili Maphanga	Umgungundlovu PMB	Tel: 033 897 5602
		Fax: 033 342 1269
		Cell: 072 151 7820
Khulekani Buthelezi (Acting)	Umkhanyakude (Umkhuze)	Tel: 035 573 1744
		Fax: 033 897 5752
		Cell: 082 503 7617
Thesa Mkhungo (Acting)	Ugu (Port Shepstone)	Tel: 039 684 0311
		Fax: 039 682 0004
		Cell: 076 859 8000
Bheki Mkize	Ethekwini (Pinetown)	Tel: 031 204 1868
		Fax: 031 204 1917
		Cell: 076 264 2471
Danny Kinsey	Umzinyathi (Dundee)	Tel: 034 212 2772
		Fax: 034 212 2473
		Cell: 079 690 4247
Mbuso Sikakane	Uthungulu (Eshowe)	Tel: 035 4745 809/7
		Fax: 035 474 5808
		Cell: 071 680 6085
Sandile Nyembe (Acting)	Uthukela (Ladysmith)	Tel: 036 631 4838
		Fax: 036 631 2889
		Cell: 061 419 7030
Chris Nkosi	Zululand (Ulundi)	Tel: 035 874 3898
		Fax: 035 874 2850
		Cell: 073 335 4356
Sandile Nyembe	Amajuba (Newcastle)	Tel: 034 315 3728
		Fax: 034 312 5381
		Cell: 061 419 7030

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Cooperative Governance and Traditional Affairs
PROVINCE OF KWAZULU-NATAL

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