Port St Johns
DEVELOPMENT AGENCY

ANNUAL REPORT 2019 / 2020

PORT ST JOHNS
MUNICIPALITY
OUR HERITAGE, OUR PEOPLE

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CHAPTER 1

MAYOR'S FOREWORD AND EXECUTIVE SUMMARY

CHAPTER 1: MAYOR'S FOREWORD AND EXECUTIVE SUMMARY

The resolution by the Council of the Port St Johns Municipality to establish a municipal entity was informed by an appreciation of the development challenges facing the municipality which require robust interventions to improve service delivery and the lives of the people. As a special purpose vehicle owned wholly by Port St Johns Municipality, the Agency must draw its activities from a mandate set by the Council and the Service Level Agreement signed between the parties. Key amongst the developmental programmes assigned to the entity are infrastructure development and investment promotion which form part of the pillars for economic transformation identified in the Provincial Growth and Development Plan and National Development Plan. The Twelve Outcomes adopted by government also provide critical guidance on the key national priorities to which every organ of state must seek to contribute. Alignment of the Agency's mandate to these was to ensure that there is focus and delivery to the extent possible.

The need for such programmes is expressed in the municipality's Integrated Development Plan through the formulation of a five year plan seeking to address the infrastructure backlogs, low economic growth, and unemployment in an incremental manner. To this end, the Agency must exploit the comparative and competitive advantage existing is a various sectors such as agriculture especially in the areas of fruit production, tourism, manufacturing. The overall outcome expected is that the Port St Johns economic output to Gross Geographic Product (GGP) must improve from the 6% it is currently estimated to be making to the O. R Tambo region.

Progress made with the plans for implementation of the Small Harbour Development, Small Town Regeneration Programme, Aquaculture and Fruit Cluster Development are indicative of Agency capacity to deliver on the economic transformation desired by all stakeholders. The issue of shark attacks that hamper the area's attractiveness as a prime tourist destinations required conceited effort from all affected stakeholders and a lead role shall be played by the municipality in this regard.

Moving forward, the Agency needs to strengthen its capacity further to deliver on its mandate building upon the strides made so far. With consistency in governance and improvement in the Audit opinion, more effort must be engaged in resource mobilisation and stakeholder management for the achievement of the catalyst projects. The Board of Directors must continue to provide leadership and oversight over the implementation of the Turn Around Strategy which has so far led to the realisation of the internal stability and improved relation with both external and internal stakeholders.

Thank you

Cllr N. Mlombile - Cingo

Mayor

INPUT BY MUNICIPAL MANAGER

Port St John's Development Agency (PSJDA) was established by the Port St John's Local Municipality as a special purpose vehicle to fast-track the delivery of high impact and catalytic projects, promote and market tourism in Port St John's as one of the major economic activities in this area.

Port St John's is one of the smallest towns located under the OR Tambo District Municipality, it is the only town in the Wild Coast area with the potential to become a prime tourist destination and thereby creating a critical mass of tourists that could spread to rural areas to alleviate poverty in these economically depressed areas. The current socio-economic climate in this area is still a challenge, especially when it comes to addressing the triple challenge confronting our communities. The Port St John's Development Agency (PSJDA) is therefore put on the spotlight and much more is expected in terms of improving the living conditions of PSJ communities.

PSJDA has undergone quite a number of evolutionary stages from its inception and these stages were characterized by different challenges unique to their pertinent stages of development. Nonetheless, the Development Agency had managed to record certain levels of achievements based on the four pillars of the Turnaround Strategy that was adopted by its Board of Directors. These pillars are as follows:

- Institutional Development and Transformation;
- Financial Viability & Management
- Good Corporate Governance & Stakeholder engagement;
- Implementation of major strategic & high impact projects on agriculture and tourism.

During the financial year under review, the PSJ Municipal Council considered and agreed on the review of legal status of the Development Agency for it to be in line with the New Companies Act of 2008. Towards the end of this current financial year, the Municipal Council further considered and approved the Mandate and the developmental Projects and assigned them to PSJDA for implementation on behalf of the parent municipality. These developmental projects will form the basis of the developmental agenda that seeks to promote and boost economic growth within this municipal jurisdiction and beyond.

Thank You.

Mr H.T. Hlazo

Municipal Manager

INPUT BY CHIEF EXECUTIVE OFFICER

The Agency adopts an Annual Performance Plan drawn from its Medium-Term Strategic Plan to guide its operations for the financial year. Through the process, it identifies critical service delivery areas that must be persued to bring the socio-economic outputs which the shareholder has set for the area in its jurisdiction. In the year under review, property and infrastructure development were amongst those key strategic areas. Through the Public Participation Process undertaken local stakeholders revealed several concerns with regards to the proposed developments. These included the impact the change for example of the Gold Course as a social amenity to middle income housing and non-availability of suitable alternative land pieces where the existing facilities would be moved given the restrictive spatial form of Port St Johns. Further planning must therefore address these issues in consultation with the relevant stakeholder.

Infrastructure Development has been generally recognised to be a catalyst for economic development. Where it does not exist or inadequate, development becomes slows or halted. This remains the most restraining factor for which the municipality is on course to addressing in partnership with provincial government. Our standing partnership with the Department of Public Works and Education with regards to Maritime Skills Development continues to bear fruits that are a build up to the Small Habour Development and Tidal Pool. Through the programme, pupils from the two Senior Secondary Schools; Toli and Port St Johns selected to offer maritime curriculum participated in a two – weeks Maths and Science Lab held in Pretoria.

Areas requiring further input include the status of the entity as a going concern and staff development. The adoption of the Resource Mobilisation Strategy forms a critical step in reducing dependency on the municipal grant and potential to add value to broader national outcomes.

Thank you

P.E. Mafuna

ACTING CEO

1. OVERVIEW OF THE AREA

Port St Johns Local Municipality (PSJLM) is located in the south-eastern portion of the Eastern Cape Province, in the former homeland of Transkei. The eastern and north-eastern boundary is formed partly by the Mzintlava River and Ingquza Hill Municipality, whilst Indian Ocean is to the south and south-eastern. The Mnenu River and Nyandeni Municipality area make up the western boundary. It has one town on the mouth of Umzimvubu River, Port St Johns, which is approximately 90km from Mthatha.

The figure below shows the locality of PSJ LM within the OR Tambo District municipal context.

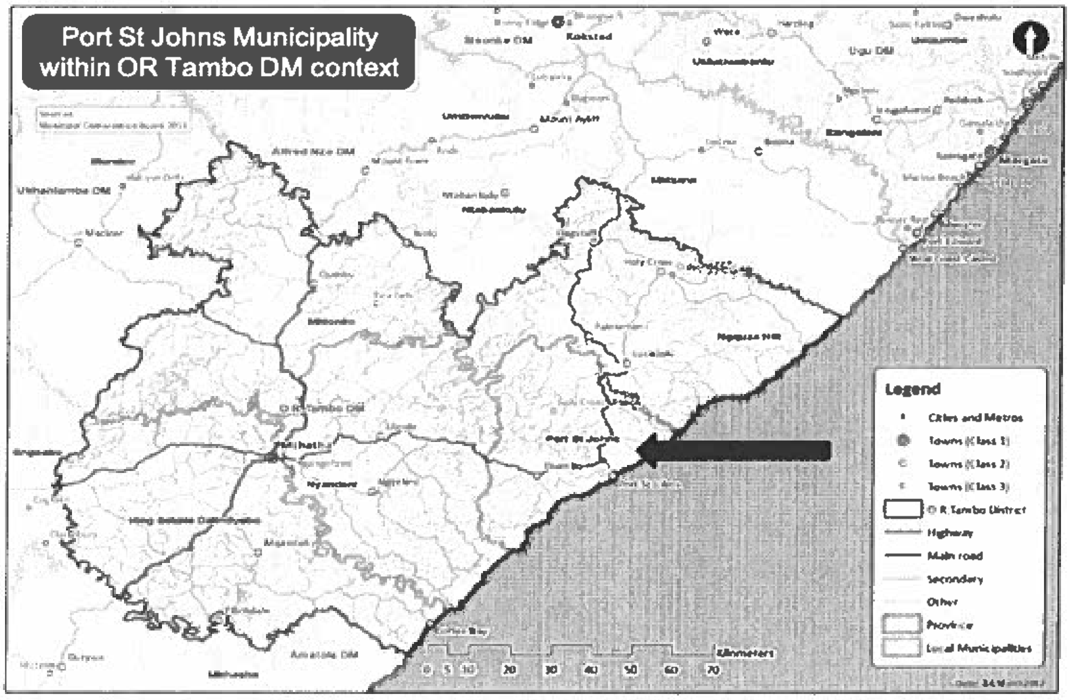


Figure 1: PSJ LM locality Plan

In terms of settlement pattern, the municipal area is characterized by a predominantly scattered rural settlement pattern with approximately 130 communities/villages distributed over the municipal area of 1 301 km² at an average density of 126 persons/ km². Nearly 90% of all the dwellings in the municipality are located in traditional tribal settlements.

The municipality is by and large a rural municipality with 20 wards spreading all over approximately 130 rural villages which are supported by a small urban centre of Port St Johns (ward 6). Port St Johns as the only town, is both the administration and council sit of the Municipality.

1.1 DEMOGRAPHIC PROFILE

1.1.2 Population

The Community Survey conducted in 2016 estimates the total population of the municipality to be 166 136. This shows a steady growth of 0.61% between 2001 and 2011.

1.2 ECONOMIC DEVELOPMENT PROFILE

1.2.1 Overview of the local economy

The economy of PSJ is one of the smallest in O. R Tambo and mainly community services. Tourism has been identified as one sector with highest potential as an economic driver due to the natural endowments. However, it lacks the prerequisite that enable its growth. Unemployment is more than 50% which is very high for an economy with a very high percentage of young people.

Topography and natural vegetation have played an important role in the economic development of the Wild Coast. Its inaccessibility, virgin landscapes have led to a sparse settlement pattern with only one urban area, Port St John's and 130 villages. This pattern is reflected in the economic make-up of the area. The dominant sector is Community Services, 66.6% of the GGP (government and institutional administration of the area). The only other sector of any significance is Trade. This reflects the consumer needs of the surrounding villages (shopping expeditions to Port St John's on pension and social grants pay days). While the pristine nature (wildness) of the region attracts considerable tourists, its contribution is difficult to establish as it is not defined as an economic sector in the Standard Industrial Classification system).Agriculture only contributes 5.6% of GGP, which is in line with the generally mountainous terrain, and inaccessibility of the area. Agriculture takes place in a traditional subsistence manner.

1.3 OVERVIEW OF THE DEVELOPMENT AGENCY

The Port St Johns Development Agency is a municipal entity, 100% owned by the Port St Johns Local Municipality. It was established in 2001 as a section 21 company, with the assistance of IDC, with the main purpose of facilitating economic growth and development, through investment promotion and implementation of anchor projects, to be assigned to it by the municipality.

The Agency is currently in a process of converting its legal status from Section 21 Company into a State Owned Company.

1.3.1 Current Mandate and services

The approved mandate of Port St Johns development agency as per Council Resolution taken on the 17th of April 2014 is as follows:

- Facilitation and co-ordination of strategic projects including infrastructural projects that are catalytic in nature to stimulate economic growth in Port St Johns;
- Strengthen & sustain investor confidence through good corporate governance;
- Facilitate and coordinate development of strategic land parcels for the benefit of PSJLM;
- Marketing and promotion of Port St Johns as a prime tourist and investment destination; and
- Facilitate trade, craft development, research and investment portfolios in all sectors
- Facilitate integrated rural economic development

1.3.2 Vision

- To facilitate development of Port St Johns into a prime tourist destination and regional hub for cultural creative industries.

1.3.3 Main objectives

The main objectives of the development agency are as follows:

- To facilitate strategic direction, institutional development and capacity building for the entire municipal entity;
- To ensure good governance, institutional development & transformation and rendering of required services;
- To establish good system of financial management, manage all risks and facilitate investment promotion;
- To facilitate business initiatives, strategic land parcels development and Property Development portfolio for PSJ Development Agency;
- To market cultural creative industries and promote Port St Johns as a prime tourist destination.

1.3.4 Values

- Good governance;
- Accountability;
- Credibility;
- Accessibility; and
- People first

CHAPTER 2

GOVERNANCE

2. CORPORATE GORVENANCE REPORT

2.1 Governance Structures and Intergovernmental Relations

The Agency had, for the year under review operated with an eight members board. It conforms to a multi – layered governance framework as set out in the Municipal Systems and Municipal Management Act with various structures established to oversight its administrative functions and liaison with stakeholders. Being an entity owned by a municipality, it utilises avenues created by the parent municipality and other legitimate intermediate institutions for purposes of public participation, promoting transparency, seeking consensus for development programmes pursued. This is done mainly through the Strategic Planning Session where a multitude of role players and stakeholders from across the three spheres gather.

Platforms for Intergovernmental Relations (IGR) such as Local Development Forum, Integrated Development Plan Road Shows and IGR Forum are used are used for communication and incorporation of Agency programmes into broader municipal plans. They further provide opportunity for alignment and cooperative partnerships with organs of state pursuing the same or similar goals. Programme specific Coordinating Committee and Steering Committees enable the organisation to input towards the planned outcomes.

2.1 Risk Management, Anti – Corruption and Fraud

Risk management, corruption and fraud have become some of the key focus areas that must be addressed through an array of measures relevant to the nature of the organisation. The Agency annually adopts a Risk Management Plan based on the assessment of its internal and external environment. Periodic reviews of its implementation highlight successes and areas requiring further development or closer monitoring. Internal controls form essential tools in this process, and whose effectiveness is assessed by Internal Audit and Audit Committee.

Table 1: Board of Directors

Board Member	Portfolio	Number of meetings attended	Sitting Allowance	Travel	Total Remuneration
Mr X. Mvinjelwa	Board Chairperson	3	**R13 500.00**	**R11709.05**	**R25209.05**
Mr A. Bewana	Non-executive Director	2	**R8 000.00**	**R980.00**	**R8 980.00**
Mr M. Nduku	FINCO Chairperson	7	**R28 000.00**	**R1740.00**	**R29 740.00**
Mr A. Nyikinya	Social and Ethics Committee Chair	6	**R24 000.00**	**R2 120.00**	**R26 120.00**
Mrs N. Balfour	Non-executive Director	5	**R20 000.00**	**R2 060.00**	**R22 060.00**
Mrs N. Mtakati- Futwa	Non-executive Director	5	**R20 000.00**	**R2 060.00**	**R22 060.00**
Mr F. Makiwane	HR Committee Chair	5	**R20 000.00**	**R0**	**R20 000.00**
Mrs L. Mbane	Non-executive Director	5	**R20 000.00**	**R0**	**R20 000.00**
		MUNICIPAL REPRESENTATIVES			
Mr. L. Ndamase	Portfolio Head: LED Committee		Not applicable	Not applicable	Not applicable
Mr. S. Xuku	Senior Manager: LED		Not applicable	Not applicable	Not applicable
		EXECUTIVE DIRECTOR			
Mrs N. P Busuku	Chief Executive Officer		Not applicable	Not applicable	Not applicable

Table 2: Audit Committee

Audit Committee Member	Portfolio	No. of meetings held	Number of meetings attended	Total Remuneration
Mr L. Galada	**Chairperson**	4	4	Shared services with the Parent Municipality.
Adv. S. Gugwini Peter	Member		2	
Mr N. Mzini	Member		3	
Mr N. Nelani	Member		4	

INTERNAL AUDIT

The service is provided by the O. R Tambo District Municipality through a Shared Service Agreement entered into with the Port St Johns Municipality as part of Municipal Support Programme. The decision was as means of saving costs given the size of the Agency. Its plans are approved and monitored by the Audit Committee from time to time through reports and presentations at Committee Meetings while reviews are submitted to the management for incorporation into performance management and operation improvement plans.

Table 3: Bid Committees

Bid Committees	Composition	Position
Specification Committee	Ms Ngaphu	Chairperson
	Mr Fono	Member
	Ms Cetwayo	Secretary
	Department Representative	
Evaluation committee	Mr Mahahasi	Chairperson
	Mr Matomane	Secretary
	Ms Sotshozi	Member

	Mr Fono	Member
Adjudication Committee	Mr Mafuna	Chairperson
	Ms Qwedela	Member
	Ms Gwavu	Secretary
	Ms Majokweni	Member

2.2 Annual General Meeting

For the year under review, the Annual General Meeting could not be held.

2.3 Management of the Supply Chain Management Policy

As a result of close monitoring of the implementation of the SCM Policy, there has been a significant reduction in the areas on non - compliance related to the procurement of goods and services compared to previous years. All reports were submitted to the Audit Committee and Board with the necessary approvals received for deviations.

2.3.1 Payment to Suppliers and Creditors

With the exception of historic creditors recognised in the Annual Financial Statements, services were paid timeously. Disbursements were undertaken per the agreement entered into for payment arrangements done with regards to Auditor General

2.3.2 Irregular Expenditure

There was no irregular expenditure incurred during the financial year.

2.3.3 Deviations

Deviations for the following transactions were approved by the Board in terms of S36 of the Municipal Finance Management Act:

Table 5: Deviations

Description	Payee	Amount
Printing of PSJ Wild Coast Maps	Azalea Promotions	R9 775.00
	TOTAL	**R9 775.00**

2.3.4 Fruitless and Wasteful Expenditure

Table 6: Fruitless and Wasteful Expenditure

Description	Payee	Amount
VAT Provision	SARS-VAT	R626 766
Interest on PAYE	**SARS- PAYE**	R2 370
Interest on MV Finance lease	ABSA Bank	R758
	TOTAL	**R629 894**

The expenditure relates to interest provision for outstanding liabilities.

2.4 Policy Development

To further strengthen organisational framework, two policies were drafted. These were the Financial Management Policy and ICT Policy and Procedures.

CHAPTER 3

SERVICE DELIVERY PERFORMANCE

3. BACKGROUND AND STRATEGIC THRUST

3.1 Background

The Port St Johns Development Agency is a municipal entity. It was established in 2001 to serve as a service delivery mechanism for local economic development, marketing and investment promotion. The entity is 100% owned by the Port St Johns Local Municipality.

3.2 Mandate and services

The approved mandate of Port St Johns development agency as per Council Resolution taken on the 17th of April 2014 is as follows:

- Facilitation and co-ordination of strategic projects including infrastructural projects that are catalytic in nature to stimulate economic growth in Port St Johns;
- Strengthen & sustain investor confidence through good corporate governance;
- Facilitate and coordinate high impact projects, adventure Tourism and agriculture
- Facilitate and coordinate development of strategic land parcels for the benefit of PSJLM;
- Marketing and promotion of Port St Johns as a prime tourist and investment destination; and
- Facilitate trade, craft development, research and investment portfolios in all sectors

ANNUAL PERFORMANCE REPORT

UNIT NAME : CORPORATE GOVERNANCE, MONITORING & EVALUATION

STRATEGIC OUTCOME ORIENTED GOAL1 : SUSTAINED INVESTOR CONFIDENCE

STRATEGIC OBJECTIVE : STRENGTHEN & SUSTAIN INVESTOR CONFIDENCE THROUGH GOOD CORPORATE GOVERNANCE

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
Corporate Governance	No. of Board meetings held.	A minimum of 4 Board meetings held by June 2020.	Attendance registers. Board Minutes.	Partially Achieved. 1 Board Meeting held.	R300 000	R174 169.05	Board term expired	Council will have to appoint the new Board.
	No. of Audit Committee meetings held.	4 Audit Committee meetings held by June 2020.	Attendance registers. AC Minutes.	Partially Achieved. 3 Audit and Risk Committee held.	Shared services with PSJLM	N/A	Adherence to lockdown regulations.	Meeting took place virtually during 2020/2021 quarter 1

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
		4 Financial and Investment Committee meetings held by June 2020.	Attendance Registers. FINCO minutes.	Partially Achieved. 1 Finance and Investment Committee meeting held.	Incorporated into Board fees	Incorporated into Board fees	Board term expired	Meeting to take place once the new Board appointed.
		2 HR Committee meetings held by June 2020.	Attendance Registers. HR minutes.	Achieved. 2 HR Committee meetings held.	Incorporated into Board fees	Incorporated into Board fees	N/A	N/A
	No. of compliance reports submitted to the Board, Audit Committee and Municipality.	All in year performance reports submitted to the Board, Audit Committee and Municipality on the prescribed timeframes.	Quarterly Reports, Midterm Report. ARC and Board Minutes Goods received book	Submissions were all made and quarter 3 and 4 were also directed to the Council in the absence of Board.	N/A	N/A	N/A	N/A

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
			2019 / 2020 Annual Performance Report and 2018 / 2019 Annual Report. ARC and Board Minutes Goods received book.	2019 / 2020 Annual Performance Report and 2018 / 2019 Annual Report submitted to the ARC, BOD, Municipality and AG.	N/A	N/A	N/A	N/A
	No. of Midterm Reports submitted	1 Midterm Performance Report submitted to the ARC, BOD and Municipality.	ARC and Board Minutes Goods received book.	Partially Achieved. Midterm performance Report not submitted to BOD.	N / A	N/A	Board term expired.	Submission will be made on the appointment of new Board by Parent Municipality.

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
	No. of SCM Reports approved by BOD & AC.	4 Quarterly SCM Reports in place by June.	Quarterly SCM Report.	Achieved.	N/A	N/A	N/A	N/A
	No. of performance review reports from the Business Plan.	4 performance review reports in place by June 2020.	Internal Audit Reports. Audit Report.	Partially achieved	N/A	N/A	Q3 performance report could not be submitted to IA due to Covid-19 Lockdown	Q3 Report submitted together with Q4 during 2020/21 quarter 1 Financial Year
	2018/2019 Annual Report developed.	2018 / 2019 Annual Report prepared and submitted to the Board and Municipality by 31 January 2020.	Board Minutes. Submission Letter.	Achieved	N/A	N/A	N/A	N/A
	No. of Compliance Submissions to CIPC.	Submit one Annual Return to CIPC.	Annual Return.	Not Achieved	R600	Nil	Submission is due in August 2020.	Target deferred to 2020/21 Q1 Financial year

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
	No. of Declaration interest forms signed by all Board Members.	All Board members submitted annual Declaration of Interest by 31 August 2019.	Annual Declaration of Interest forms.	Achieved	N/A	N/A	N/A	N/A
Risk Management	No. of risks assessments undertaken.	Risk Assessment undertaken and Risk Register Developed by 31 August 2019`.	Risk Register.	Achieved	N/A	N/A	N/A	N/A
	No. of risks management reports developed.	4 Risk Assessments Reports submitted to AC and BOD.	Risk Management Reports.	Partially Achieved	N/A	N/A	Board term expired	Submission to be made to BOD on its appointment
	Percentage of External Audit queries addressed.	50% External audit queries addressed by June 2020.	Audit Action Plan. Progress Reports on Implementati on of the	Achieved	N/A	N/A	N/A	N/A

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
			Audit Action Plan. AC and Board meeting minutes.					
	Percentage of Internal Audit queries addressed.	75% Internal Audit queries addressed by June 2020.	Internal Audit Findings Tracking Tool.	Partially Achieved	N/A	N/A	Some internal control weaknesses still exist because of budget constraints and delays in SOC migration processes by Parent Municipality, as well as non-existence of BOD.	Management will liaise with Internal Audit for closer monitoring of queries

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
Policy Development	No. of approved policies.	2 policies submitted to the BOD.	Board Resolution.	Not Achieved	N/A	N/A	Board term expired	Policy will be submitted once the BOD appointed.
Strategic Partnership	No. of strategic partnerships concluded with stakeholders.	2 Strategic Partnerships concluded with stakeholders by June 2020.	MOU / MOA entered into with stakeholders.	Not Achieved	R20 000	Nil	Engagements had not materialised to agreements by end of financial year	Further engagements will take place during 2020/21 financial year
		2019/2020 Business Plan in place.	Board Minutes.	Achieved	N/A	N/A	N / A	N/A
		Service Delivery Agreement in place.	Signed Service Delivery Agreement.	Achieved	N/A	N/A	Signed Service Delivery by Municipality in place.	N/A
	2019/2020 Annual	2019 / 2020 Annual Performance Plan prepared	Board minutes.	Achieved	N/A	N/A	N / A	N/A

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
	Performance Plan developed.	and approved by the BOD.	Signed Annual Business Plan					
Budgeting.	Alignment between the Budget and Business Plan.	Balanced budget approved by Board by May 2020.	Board Minutes.	Partially achieved	N/A	N/A	Board term expired	Submission made to Parent Municipality for Council approval.
	Budget Adjustment prepared and submitted to BOD, AC and Municipality.	Approved 2019/2020 Budget Adjustment in place by the Board by 31 January 2020.	Board Minutes.	Partially Achieved	N/A	N/A	Board term expired	Submission made to Parent Municipality for Council approval.
	GRAP Compliant Annual Financial Statements submitted to the ARC, BOD and AG.	2018 / 2019 Annual Financial Statements submitted to the AG and	Annual Financial Statements. Proof of submission of Annual	Achieved	N/A	N/A	N/A	N/A

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
		BOD by 31 August 2019.	Financial Statements. ARC and BOD minutes.					
Revenue and Expenditure Management	No. of S87 Reports submitted to the municipality.	12 S87 reports submitted.	S87 Reports. Goods received book.	Achieved	N/A	N/A	N/A	N/A

UNIT NAME : **CORPORATE SERVICES**

STRATEGIC OUTCOME ORIENTED GOAL2 : **CAPABLE, EFFICIENT AND EFFECTIVE STATE OWNED COMPANY**

STRATEGIC OBJECTIVE : **ENSURE GOOD GOVERNANCE, INSTITUTIONAL DEVELOPMENT, TRANSFORMATION OF PROVISION OF SERVICES**

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measures
Administration, Fleet and records Management.	No. of compliance reports submitted.	12 compliance reports relating to Leave Reconciliation and UIF submitted on the prescribed time frames.	Leave Reconciliation Registers.	Achieved	N/A	N/A	N/A	N/A
			Monthly UIF reports submitted to Dept. of Labour.	Achieved	N/A	N/A	N/A	N/A
	No. of cleanliness schedules.	4 Quarterly Cleanliness Schedules maintained.	Work Schedules.	Partially Achieved. Three Quarterly Schedules were done.	N/A	N/A	Offices closed down due to Covid-19 Lockdown	Q4 Target deferred to 2020/21 Q1 Financial year
Staff Development	No. of policy workshops.	2 Policy workshops	Attendance Registers.	Partially Achieved	N/A	N/A	Offices closed down due to Covid-19 Lockdown	Target deferred to 2020/21 Q1 Financial Year
Performance Management	No. of Performance Agreements concluded.	1 Performance Agreements concluded. between the	Performance Agreement.	Achieved	N/A	N/A	N/A	N/A

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measures
		Board and CEO.						
	No. of Performance Reviews undertaken.	1 Formal CEO Performance Reviews undertaken July 2019.	Performance Review Reports.	Achieved	N / A	N/A.	N / A	N/A
	All the employees signed Confidentiality commitment forms.	100% employees signed confidentiality commitment forms.	Confidentiality commitment forms.	Achieved	N/A	N/A	N/A	N/A
Asset Management	No. of service intervals done.	Vehicle is in good running condition and roadworthy.	Invoice	Not Achieved	R10 000	NIL	Vehicle not yet reached the applicable kilometres for service.	Service will be undertaken when due.
	No. of trips authorities signed and logbooks entries.	All trips undertaken have trip authorities and logbook entries.	Quarterly Reconciliation Report.	Achieved	N/A	N/A	N/A	N/A

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measures
Office Administration	No. of Provision of Business tools.	1 Laptop in place.	Purchase Order	Achieved	R7 000	R7 825.22	N/A	N/A
		2 laptops repaired	Purchase Order	Partially Achieved	R4 000	R3 739.13	Only I Laptop required repairs.	N/A
	% Provision of Stationery.	100% of stationery required in place.	Purchase Order	Achieved	R50 000	R44 475.00	N/A	N/A
	% Provision of cleaning material.	100% of cleaning material required in place.	Purchase Order	Partially Achieved. 75% successfully achieved.	R6 000	R11 559.00	Offices closed down due to Covi-19 pandemic.	Q4 target deferred to 2020/21 financial year
Information, and Communication Technology.	No. of information technology, administration and security workshops held.	4 workshops on information technology admin and security undertaken.	Attendance Registers.	Partially Achieved. Only 1 workshop conducted.	N/A	N/A	Offices closed down due to Covid-19 pandemic	Target deferred to 2020/21 financial year

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measures
		Website fully operational by June 2020.	Website.	Achieved	N/A	N/A	N/A	N/A
		All related software procured and /or renewed.	Purchase order	Not Achieved	R26 859	R23 229	Offices closed down due to Covid-19 lockdown.	Target deferred to 2020/21 financial year
		ICT Hardware procured.	Purchase Order	Not Achieved	R30 000	NIL	Not procured due to upfront payment demanded by the Service Provider.	Target deferred to 2020/21 Q1 financial year

UNIT NAME : **FINANCIAL MANAGEMENT AND COMPLIANCE**

STRATEGIC OUTCOME ORIENTED GOAL 2 : **CAPABLE, EFFICIENT AND EFFECTIVE STATE-OWNED COMPANY**

STRATEGIC OBJECTIVES

: **ENSURE GOOD GOVERNANCE, INSTITUTIONAL DEVELOPMENT, TRANSFORMATION OF PROVISION OF SERVICES**

: **ESTABLISH SOUND SYSTEM OF FINANCIAL AND RISK MANAGEMENT**

: **IMPLEMENT A FAIR, EQUITABLE, TRANSPARENT, COMPETITIVE AND COST EFFECTIVE SUPPLY CHAIN MANAGEMENT SYSTEM**

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted Amount	Actual Expenditure	Reason for Variance	Corrective Measure
Budgeting.	% alignment between the Budget and Business Plan.	Balanced budget approved by Board by May 2020.	Board Agenda. Approved budget.	Partially Achieved	N/A	N/A	Board term expired	Annual Budget to be approved by the Council during 2020/21 Q1 financial year
Revenue and Expenditure Management	No. of S87 reports submitted to the CEO.	12 S87 Reports submitted by June 2020.	S87 Reports, Quarterly, Midterm Reports	Achieved	N/A	N/A	N/A	N/A
	Midterm Financial Report submitted to the CEO.	Midterm Financial Report submitted to the CEO.	Midterm Financial Report.	Achieved	N/A	N/A	N / A	N/A
	% compliance reports submitted to CEO.	100% compliance reports submitted by June 2020.	Monthly Creditors, Payroll, Bank reconciliations, FAR Reconciliation.	Achieved	N/A	N/A	N/A	N/A

	Budget Adjustment prepared and submitted to BOD, AC and Municipality.	2019/2020 Budget Adjustment in place.	2019/2020 Budget Adjustment.	Partially Achieved	N/A	N/A	Board term expired	Budget Adjustment submitted to the Council
	GRAP compliant Annual Financial Statements approved.	2018 / 2019 Annual Financial Statements approved by the Board by 31 August 2019.	Board resolution approved. Annual Financial Statements.	Achieved	R285 000	R274 936.00	N/A	N/A
Statutory submissions	No of Tax Returns submitted to SARS.	12 PAYE Returns submitted to SARS.	PAYE Returns	Achieved	N/A	N/A	N/A	N/A
		6 VAT returns submitted to SARS.	VAT Returns.	Achieved	N/A	N/A	N/A	N/A
Supply Chain Management	% reduction of irregular, fruitless and wasteful expenditure.	100% implementatio n of the Supply Chain	Audit Report.	Achieved	N/A	N/A	N/A	N/A

		Management Policy.						
	% of contracts awarded to local SMME's.	Minimum of 30% of contracts awarded to local SMME's.	Quarterly, Midterm and Annual SCM Report.	Achieved	N/A	N/A	N/A	N/A
	No. of compliance reports submitted.	4 Quarterly SCM Reports submitted to the CEO.	Quarterly SCM Reports.	Achieved	N/A	N/A	N/A	N/A
		Approved 2018/2019 Annual SCM Report in place.	Approved 2018/2019 Annual SCM report.	Achieved	N/A	N/A	N/A	N/A
	% Implementatio n of Procurement Plan.	2019/2020 Procurement Plan approved in place.	Approved 2019/2020 Procurement Plan	Achieved	N/A	N/A	N/A	N/A
		100% goods and services procured	Procurement Reports.	Partially achieved.	N/A	N/A	Offices closed down	Q4 Target deferred to

		according to the plan.		82% successfully achieved.			due to Covid-19 pandemic.	2020/21 Q1 financial year
Asset Management	No. of Asset Verifications undertaken.	4 Quarterly Asset Verifications undertaken by June 2020.	Updated Asset physical verification.	Achieved	N/A	N/A	N/A	N/A
	2019 / 2020 Asset Verification undertaken.	2019 / 2020 Asset Verification undertaken by June 2020.	2019 / 2020 Annual Fixed Asset Register Report.	Achieved	N/A	N/A	N/A	N/A
Fraud Prevention Management	No. of financial disclosure of interest forms completed and signed by 19 employees.	19 Declaration of interest forms completed and signed by all staff members.	18 Signed declaration of interest forms.	Achieved	N/A	N/A	N/A	N/A

UNIT NAME : **BUSINESS DEVELOPMENT AND SPECIAL PROJECTS**

STRATEGIC OBJECTIVES : **FACILITATE AND COORDINATE HIGH IMPACT PROJECTS, ADVENTURE TOURISM AND AGRICULTURE**

: **FACILITATION AND COORDINATION OF STRATEGIC PROJECTS INCLUDING INFRASTRUCTURAL PROJECTS THAT ARE CATALYTIC IN NATURE TO STIMULATE ECONOMIC GROWTH IN PORT ST JOHNS**

FACILITATE TRADE, CRAFT DEVELOPMENT, RESEARCH AND INVESTMENT PORTFOLIOS IN ALL SECTORS

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted AMOUNT	Actual Expenditure	Reason for Variance	Corrective Measures
STRATEGIC OUTCOME ORIENTED GOAL 3 : IMPROVED INFRASTRUCTURE FOR ECONOMIC DEVELOPMENT								
Small Harbour Development .	No. of stakeholder consultative sessions attended.	2 stakeholder engagements attended.	Attendance registers.	Partially achieved	N/A	N/A	Offices closed down due to Covid-19 pandemic.	Target deferred to 2020/21 Q1 financial year
STRATEGIC OUTCOME ORIENTED GOAL 4 : ENHANCED INVESTMENT IN AGRICULTURE, TOURISM, TRADE, RESEARCH AND CRAFT DEVELOPMENT								

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted AMOUNT	Actual Expenditure	Reason for Variance	Corrective Measures
Fruit Cluster Development .	No. of Partnerships entered into.	1 Partnership agreement entered into with for project development by June 2020.	Partnership Agreement signed.	N/A	N/A	N/A	N/A	N/A
Aquaculture Development .	Feasibility Study Report.	Feasibility Study conducted in partnership with O. R Tambo District Municipality.	Feasibility Study Report.	Not Achieved	N/A	N/A	Appointed Service provider unable to complete the study as per SLA agreed timelines. There is a low pace of delivery by Service Provider.	Formal request made to OR Tambo District Municipality to incorporate the project into their wide study
Market access for craft products.	% increase in craft products sold to the market.	20% increase in craft products sold to the market.	Sale records.	Partially achieved	R10 000	NIL	Offices closed down due to Covid-19 pandemic.	Target deferred to 2020/21 Q2 financial year
			Sale records.	Partially Achieved	R10 000	NIL	Offices closed down due to	Target deferred to

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted AMOUNT	Actual Expenditure	Reason for Variance	Corrective Measures
							Covid-19 pandemic.	2020/21 Q2 financial year
	No. of Crafters Flea Markets held.	3 flea markets held.	Attendance Registers.	Partially Achieved	N/A	N/A	Offices Closed down due to Covid-19 pandemic.	Target deferred to 2020/21 Q1 financial year
STRATEGIC OUTCOME ORIENTED GOAL5 : IMPROVED MARKETING OF PORT ST JOHNS AS A PRIME TOURIST DESTINATION								
Visibility of PSJ in the tourism market.	No. of trade shows attended.	4 Trade shows attended.	Attendance Register.	Partially Achieved	R15 000	NIL	Offices Closed down due to Covid-19 pandemic.	Target deferred to 2020/21 Q2 financial year
Production and distribution of marketing material.	No. of marketing material distributed.	500 production and 300 PSJ booklets,200 PSJ brochers printed and Distribution of marketing material.	Wild Coast Maps. Booklet. Purchase Order	Achieved	R20 000	R11 120.00	N/A	N/A
			Brocher	Achieved	R10 000	R13 060.00	N/A	N/A

Strategic Programme	Key Performance Indicators	Annual Target	Means of Verification	Achievement	Budgeted AMOUNT	Actual Expenditure	Reason for Variance	Corrective Measures
			Purchase Order					
	% Provision of PSJDA display equipment in place.	100% of PSJDA Display equipment provided.	Purchase Order	Achieved	R10 000	NIL	N/A	N/A
		500 distribution of marketing material.	Goods received records.	Partially Achieved	R3 000	NIL	Offices closed due to lockdown	Deferred to Q2
Stakeholder liaison and management .	No. of meetings held with stakeholders in the tourism sector.	4 Quarterly meetings held with stakeholders in the tourism sector by June 2020.	Minutes. Attendance registers.	Partially Achieved	N/A	N/A	Offices closed due to Lockdown	Target deferred to 2020/21 Q1 financial year.

CHAPTER 4

ORGANISATIONAL DEVELOPMENT

In order to drive the organisational mandate, the Agency has five business units that have been allocated Key Performance Areas as part of a work breakdown structure but which work in a coordinated manner to derive the predetermined objects. They are as follows:

4.1 Functional/admin structure

The functional structure of the development agency consists of the following units:

- Corporate Governance, monitoring & evaluation;
- Financial Management and Compliance;
- Corporate Services;
- Business Development, and Special projects

4.1.1 Corporate Governance, Monitoring & Evaluation

This unit is located in the office of the Chief Executive Officer. Its functions/KPAs are as follows:

- Provide secretariat services to the Board of Directors, its committees, Audit Committee and Internal Audit Management Sessions;
- Facilitate Strategic planning;
- Monitoring & evaluation of organisational performance;
- Craft development & Training Centre;
- Human Settlement development;
- Bulk Services – Water Reticulation;
- Shopping Mall

4.1.2 Financial Management and Compliance

Functions performed by this unit include:

- Financial planning & budgeting;
- Budget expenditure control;
- Financial reporting;
- Basic accounting & financial record keeping;

- Pay roll administration;
- Preparation of submission of tax returns;
- Asset Management;
- Supply Chain Management

4.1.3 Corporate Services

Key functions of this unit are as follows:

- Office management & general office administration;
- Front office management;
- Human resource management and development;
- Labour relations;
- Occupational health & safety;
- Staff performance management;
- Transport administration;
- Provisioning Administration

4.1.4 Business development and Special projects

Key performance areas for this unit are:

- Business development;
- Integrated rural development;
- Stakeholders Management ;
- Skills development;
- Implementation of Special projects;
- Marketing and Promotion of Port St Johns as a prime tourist destination

Table 8: Staffing Levels

Units	Personnel Structure per approved Organogram	Posts	Current Status
CEO's office	4	CEO Operations Manager Finance Manager Executive Assistant	Filled Vacant Vacant Filled
Finance & SCM Unit	3	Financial Accountant SCM Officer SCM Practitioner	Filled Filled Filled
Corporate Services (Admin &HR)	11	HR Officer Receptionist IT Practitioner Office Administrator 4 General Workers 3 Security Personnel	Filled Vacant Filled Vacant Filled Filled
Business Development and Special Projects	4	Development facilitator PMU Manager 2 Project Officers	Filled Vacant Vacant
Tourism Unit	3	2 Tourism Officers Tourism Assistant	Filled Filled
Total	**25**		
Total Filled	**17**		
Vacancy Rate	**28%**		

4.9 Staff Composition and Turnover

All the staff members are black Africans with inclusive of two Interns from LGSETA. Gender distribution and age are as follows:

Gender		Age		
Female	Male	35 and under	36 - 45	46 - 60
9	8	5	9	3

The position of one security guard became vacant in the course of the financial year due to the candidate passing away.

4.10 Performance Management

As per the performance management policy, all the staff members submitted performance reports as prescribed by the policy on a monthly, quarterly and annual basis.

4.11 Leave Administration

Leave reconciliations were conducted on a quarterly basis.

4.12 Salaries: Trends on Total Expenditure

Table 15: Personnel and General Expenditure

Financial years	*Total number of staff*	*Total Revenue*	*Total Expenditure excl. VAT*	*Personnel Expenditure*	*Percentage Expenditure*

2011/12	15	R3,628,925	R 4, 577,063	R 1, 792 ,115	39,2 %
2012/13	15	R2,845, 22	R5, 099, 143	R1, 112, 197	55%
2013/14	15	R3'377,193	R3'592, 935	R2'146, 562	95%
2014/15	16	R4,416,086	R1,592,506	R2,515,632	93%
2015/16	23	R6 044 378	R1 361 820	R4 283 385	93.4%
2016 / 2017	18	R8 608 411. 87	R2 490 818	R4 980 515	87%
2017 / 2018	18	R8 050 000. 00	R7 365 090	R4 810 722	92%
2018 / 2019	17	R11 468 600	R10 719 463	4 209 099	93%
2019 /2020	17	R8 908 967	R7 746 798	5 551 099	86%

CHAPTER 5

FINANCIAL PERFORMANCE

CHAPTER 5: FINANCIAL PERFORMANCE

The Agency received a total of R8 908 967 as a grant from the municipality to fund its operations and programme implementation. Budget allocation is informed by outcomes of the Strategic Plan, IDP public consultations and other considerations from time to time.

In compliance to the Municipal Financial Management Act, the Board of Directors considered and approved the Draft Budget at the prescribed timeframes prior to the start of the financial year. By year end, at least 86% of the allocated budget had been spent in terms of the agreed cashflow projections and drawdowns. The remaining 14% constituted provisions for committed funds and interest charges.

Close monitoring of the implementation of the Supply Chain Management Policy had resulted to no irregular expenditure incurred in 2019 / 2020. In combination with systems for asset management, accounting are resulted to the generation of reliable records of transactions as reflected in the GRAP compliant Annual Financial Statements. By the same token, the poor financial health of the organisation indicates the need for much effort to be put towards addressing the high level of liabilities compared to assets. The migration to a State Owned Company which has, as part its processes settlement of the outstanding liabilities would have put the organisation on a state of going concern as opposed to liquidation.

CHAPTER 6

AUDITOR GENERAL'S FINDINGS

The Auditor General has completed the audit process and presented both the Management and Audit Reports. During the review, the following critical matters as set out in the report have not been addressed:

a) Trading under insolvent circumstances as Agency's total liabilities far exceed its total assets.
b) Reckless trading on trading based on the NPC having not been liquidated, continued trading with the NPC post deregistration and the illiquid state of the entity.
c) Fruitless and wasteful expenditure amounting to R629 136 that was incurred mainly as a result of interest and penalties on non-payment of VAT to SARS

Through engagements with Board representatives, management and the municipality, several recommendations were made by the AG with regard to the finalisation of SOC migration process. It was advised that the following should be adhered to:

a) Action plan for PSJ Municipality to settle liabilities of NPC;
b) Letter to SARS from PSJ Municipality willing to settle liabilities to SARS;
c) Transfer of Assets to SOC;

d) Council resolutions be taken in respect of the voluntary disclosure to SARS for the VAT, trading with the NPC, incorporation of assets and liabilities to the municipality and liquidation of the NPC.

Several submissions had been made to Parent Municipality and they resolved that the Agency matter be put into abeyance pending the outcomes of the long-awaited report from Provincial Treasury.

All issues raised by Auditor General will soon be attended through preparation and submission of the Audit Action Plan.

The audit opinion on Business Development and Special Projects for annual performance improved for the better, moving from the previous financial year's qualified opinion to unqualified.

Furthermore, the financial statements present fairly, in all material respects, the financial position of the Agency as at 30th June 2020, and its financial performance and cash flows for the year then ended in accordance with Municipal Management Act of South Africa, 2003 (Act No. 56 of 2003 and the requirements of the Companies Act of South Africa, 2008 (Act No, 71 of 2008).

OVERALL OPINION:

Despite the existing challenges facing the Entity, the Auditor General's opinion of unqualified with emphasis of matters for the current year indicates improvement on both financial and non-financial aspects..

APPENDICES

APPENDIX A: COUNCIL, COMMITTEE ALLOCATION AND ATTENDANCE

APPENDIX B: COMMITTEE AND COMMITTEE PURPOSE

APPENDIX C: ORGANOGRAM OF MUNICIPAL ENTITY

APPENDIX D: FUNCTIONS OF MUNICIPAL ENTITY

APPENDIX E: RECOMMENDATIONS BY AUDIT COMMITTEE

APPENDIX F: DISCLOSURE OF FINANCIAL INTEREST

APPENDIX A: COUNCIL, COMMITTEE ALLOCATION AND ATTENDANCE

Board of Directors

Board Member	Portfolio	Number of meetings attended	Sitting Allowance	Travel	Total Remuneration
Mr X. Mvinjelwa	Board Chairperson	3	**R13 500.00**	**R11709.05**	**R25209.05**
Mr A. Bewana	Non-executive Director	2	**R8 000.00**	**R980.00**	**R8 980.00**
Mr M. Nduku	FINCO Chairperson	7	**R28 000.00**	**R1740.00**	**R29 740.00**
Mr A. Nyikinya	Social and Ethics Committee Chair	6	**R24 000.00**	**R2 120.00**	**R26 120.00**
Mrs N. Balfour	Non-executive Director	5	**R20 000.00**	**R2 060.00**	**R22 060.00**
Mrs N. Mtakati- Futwa	Non-executive Director	5	**R20 000.00**	**R2 060.00**	**R22 060.00**
Mr F. Makiwane	HR Committee Chair	5	**R20 000.00**	**R0**	**R20 000.00**
Mrs L. Mbane	Non-executive Director	5	**R20 000.00**	**R0**	**R20 000.00**
MUNICIPAL REPRESENTATIVES					
Mr. L. Ndamase	Portfolio Head: LED Committee		Not applicable	Not applicable	Not applicable
Mr. S. Xuku	Senior Manager: LED		Not applicable	Not applicable	Not applicable
EXECUTIVE DIRECTOR					
Mrs N. P Busuku	Chief Executive Officer		Not applicable	Not applicable	Not applicable

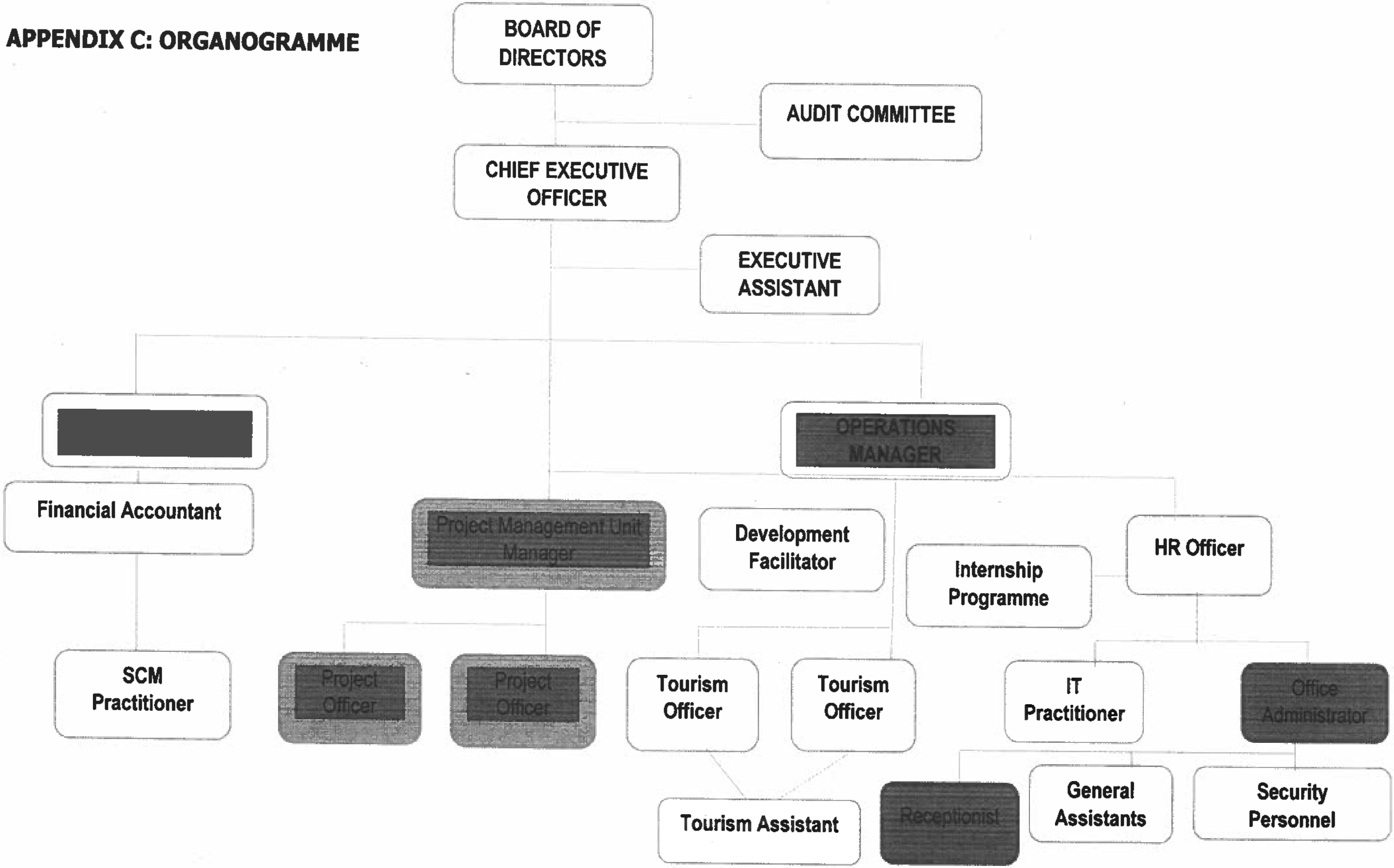
Audit Committee

Audit Committee Member	Portfolio	No. of meetings held	Number of meetings attended	Total Remuneration
Mr L. Galada	**Chairperson**	4	4	Shared services with the Parent Municipality.
Adv. S. Gugwini Peter	Member		2	
Mr M. Mzini	Member		3	
Mr N. Nelani	Member		4	

APPENDIX B: COMMITTEE AND COMMITTEE PURPOSE

NAME OF COMMITTEE	PURPOSE
Board of directors	▪ To provide effective, transparent, accountable and coherent corporative governance and conduct effective oversight of the affairs of the municipal entity. ▪ Ensure that it and the municipal entity comply with all applicable legislation and agreements. ▪ Communicate openly and promptly with the parent municipality of the entity. ▪ Deal with the parent municipality of the municipal entity in good faith. S93H – MDSA.
Audit Committee	▪ Advise the Board of Directors, accounting officer and the management staff of the municipal entity on matters relating to; - Internal financial control and internal audits; - Risk management; - Accounting Policies; - The adequacy, reliability and accuracy of financial reporting and information; - Performance Management; - Effective Governance; - Compliance with MFMA; - Performance Evaluation - Any other relevant issues referred to it. S166 – MFMA.

APPENDIX C: ORGANOGRAMME



APPENDIX D: FUNCTIONS OF MUNICIPAL ENTITY

MANDATE AND SERVICES

- Facilitation and co-ordination of strategic projects including infrastructural projects that are catalytic in nature to stimulate economic growth in Port St Johns.
- Strengthen & sustain investor confidence through good corporate governance.
- Facilitate and coordinate high impact projects, adventure Tourism and agriculture.
- Facilitate and coordinate development of strategic land parcels for the benefit of PSJLM.
- Marketing and promotion of Port St Johns as a prime tourist and investment destination.
- Facilitate trade, craft development, research and investment portfolios in all sectors.

RECOMMENDATIONS BY AUDIT & RISK COMMITTEE

Section 121(3)(j) and 121(4) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires that the annual report of the municipality or municipal entity must include any recommendations of the audit committee.

The audit committee acknowledges management's efforts to strengthen internal controls in the entity. The audit committee is concerned that in certain instances the matters reported by the external auditors and the internal audit function in prior years have not been fully and satisfactorily addressed. Management has given assurance that effective corrective action will be implemented in respect of all internal control weaknesses, and the audit committee will monitor these going forward. Significant issued raised in the external audit are not within the mandate of management and board of the entity as they are to be implemented by the parent municipality.

The audit committee remains concerned that not all ICT risks are being addressed or mitigated, in implementing the new systems (for example **Mscoa**). The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued during the year under review in compliance with the statutory framework, and has, therefore engaged with management to remedy shortcomings. The audit committee has also recommended that the entity prepare interim financial statements that comply with Standards of Generally Recognised Accounting Practice (GRAP), which could assist in performing reconciliations timeously as well as in eliminating year-end adjustments.

The audit committee is satisfied that the internal audit function has properly discharged its functions and responsibilities during the year under review. The committee has reviewed the risk register and is generally satisfied with the maturity of the risk management process. The committee also satisfied that the performance report has been prepared in terms of the MFMA, MSA and the related Regulations. Except for the matters identified by the external auditors in the auditor's report, the audit committee is comfortable that the annual financial statements have been prepared in terms of GRAP and the MFMA. The audit committee concurs with and accepts the conclusion and audit opinion of the external auditors (AGSA) on the annual financial statements.

The audit committee also concurs with the material findings on the reported performance information and compliance with legislation. The committee is comfortable that given the implementation of effective and efficient controls, these matters should be adequately dealt with in future periods. The audit committee acknowledges the diligence and co-operation of the external audit team.

Conclusion: Significant progress was made during the financial year in addressing internal audit and risk management weaknesses. Senior management should continually promote a culture in which administrative controls are constantly improved upon and where evidence of accountability and consequence management remains a key focus.

On behalf of the Audit and Risk Committee:

Mr L. Galada

Audit & Risk Committee Chair

APPENDIX F: DISCLOSURE OF FINANCIAL INTEREST

NAME	POSITION	NATURE OF INTEREST
N P Busuku	CEO	None declared
N Gwavu	Financial Accountant	None declared
P Mafuna	Development Facilitator	None declared
A Majokweni	Executive Assistant	None declared
A Qwedela	Tourism Officer	None declared
N Ngaphu	SCM Practitioner	None declared
N Cetywayo	Tourism Officer	None declared
M Matomane	Tourism Assistant	None declared
M Mahahasi	SCM Officer	None declared
T Sotshozi	HR Officer	None declared
S Fono	IT Practitioner	None declared

Port St Johns Development Agency NPC
(Registration number 1999/009129/08)
Annual financial statements
for the year ended 30 June 2020

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Stimulation of Economic Growth
Directors	NP Busuku - Resigned 31 July 2019 X Mvinjelwa - Term of office ended 13 December 2019 A Nyikinya - Term of office ended 13 December 2019 AL Bewana - Term of office ended 13 December 2019 N Balfour - Term of office ended 13 December 2019 L Mbane - Term of office ended 13 December 2019 EFB Makiwane - Term of office ended 13 December 2019 LS Nduku - Term of office ended 13 December 2019 N Mtakati-Futwa - Term of office ended 13 December 2019
Registered office	Tourism Information Centre Building - ERF 41 Town Entrance Port ST Johns 5120
Business address	Tourism Information Centre Building - ERF 41 Town Entrance Port ST Johns 5120
Postal address	P O Box 253 Port ST Johns 5120
Parent municipality	Port St Johns Municipality Incorporated in South Africa
Bankers	ABSA Bank Limited
Auditors	Auditor-General South Africa
Company registration number	1999/009129/08
Preparer	The annual financial statements were independently compiled by: Tendai Mapenda (CA SA) Reliable Accountants Incorporated
Published	31 August 2020

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

GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act

Accounting Officer's Responsibilities and Approval

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

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

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

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the agency and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the agency sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the agency and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the agency is on identifying, assessing, managing and monitoring all known forms of risk across the agency. While operating risk cannot be fully eliminated, the agency endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

These annual financial statements were prepared based on the expectation that the agency will not be able to continue to operate as a going concern for at least the next 12 months. This is due to the fact that the liabilities of the agency far exceeded its assets and the board, acting on a council resolution de-registered the Non Profit Company ("NPC") on the 30th of December 2016 and commenced with the registration of a State Owned Company ("SOC") which would carry on similar functions as the ones which were done by the NPC. Accordingly the agency adopted the liquidation basis of accounting, whereby assets are measured at the estimated amount of cash or other consideration that the agency expects to collect in settling or disposing of those assets and liabilities are measured at their estimated settlement amounts, including costs that the agency expects to incur through the end of its liquidation ("liquidation value"). These estimated amounts are undiscounted and are recorded to the extent the agency has a reasonable basis for estimation.

Although the accounting officer is primarily responsible for the financial affairs of the agency, he is supported by the agency's external auditors.

The annual financial statements set out on pages 4 to 41, which have been prepared on the liquidation basis, were approved by the accounting officer on 31 August 2020 and were signed on his behalf by:

Mr. PE Mafuna - Acting Chief Executive Officer

Directors' Report

The director submits his report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The agency is engaged in stimulation of economic growth and operates principally in South Africa.

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

2. Basis of presentation of financial statements

We draw attention to the fact that at 30 June 2020, the entity had an accumulated (deficit) of (12 901 313) and that the entity's total liabilities exceed its assets by (12 901 313).

The budget allocations from the parent Municipality have not been adequate to cover all obligations of the agency over the years. This resulted in the agency either failing to pay the liabilities or paying them late. The liabilities accumulated and in some instances penalties and interest charges were incurred while the under funding continued. The Board is currently engaging the parent Municipality for a council resolution to wind up the agency operations and liquidate the Section 21 Non Profit Company.

These financial statements were prepared based on the expectation that the agency will not be able to continue to operate as a going concern for at least the next 12 months. This is due to the fact that the liabilities of the agency far exceeded its assets and the board, acting on a council resolution de-registered the Non Profit Company ("NPC") on the 30th of December 2016 and commenced with the registration of a State Owned Company ("SOC") which would carry on similar functions as the ones which were done by the NPC. Accordingly the agency adopted the liquidation basis of accounting, whereby assets are measured at the estimated amount of cash or other consideration that the agency expects to collect in settling or disposing of those assets and liabilities are measured at their estimated settlement amounts, including costs that the agency expects to incur through the end of its liquidation ("liquidation value"). These estimated amounts are undiscounted and are recorded to the extent the agency has a reasonable basis for estimation.

Under the plan of winding up, the agency plans to 1) transfer assets and liabilities of the agency back to the parent Municipality, and 2) liquidate the Section 21 Non Profit Company. The board anticipates that the liquidation of the NPC will be completed on or about the 30th of June 2021.

3. Subsequent events

The board continues to pursue the winding up of the agency with the parent Municipality. At the date of authorisation of these financial statements, the council resolution to transfer the assets and liabilities of the agency to the Municipality and to liquidate the Section 21 company was still pending.

4. Directors

The director of the entity during the year and to the date of this report is as follows:

Name	Capacity	Changes
Mrs. NP Busuku	CEO	Resigned 31 July 2019
X Mvinjelwa	Chairperson and non-executive	Term of office ended 13 December 2019
A Nyikinya	Non-executive	Term of office ended 13 December 2019
AL Bewana	Non-executive	Term of office ended 13 December 2019
N Balfour	Non-executive	Term of office ended 13 December 2019
L Mbane	Non-executive	Term of office ended 13 December 2019
EFB Makiwane	Non-executive	Term of office ended 13 December 2019
LS Nduku	Non-executive	Term of office ended 13 December 2019
N Mtakati-Futwa	Non-executive	Term of office ended 13 December 2019

The term of office of the Agency's board of directors ended on 13 December 2019. The new board has not yet been appointed. It is anticipated that the council of the parent municipality will make the appoinments soon.

Directors' Report

5. Auditors

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

Statement of Financial Position as at 30 June 2020

	Notes	2020	2019
Assets			
Current Assets			
Receivables from exchange transactions, at liquidation value	2	72 355	23 070
Cash and cash equivalents, at liquidation value	3	1 006 234	253 440
		1 078 589	**276 510**
Non-Current Assets			
Property, plant and equipment, at liquidation value	4	374 864	444 091
Total Assets		**1 453 453**	**720 601**
Liabilities			
Current Liabilities			
Finance lease obligation, at liquidation value	5	-	33 594
Payables from exchange transactions, at liquidation value	6	762 043	1 792 924
VAT payable, at liquidation value	7	4 561 388	4 510 006
Conditional grants liabilities, at liquidation value	8	2 251 634	2 251 634
Provisions, at liquidation value	9	6 779 701	6 152 935
		14 354 766	**14 741 093**
Total Liabilities		**14 354 766**	**14 741 093**
Net Assets		**(12 901 313)**	**(14 020 492)**
Accumulated deficit		(12 901 313)	(14 020 492)

Statement of Financial Performance

	Notes	2020	2019
Revenue	10	7 746 928	10 363 478
Other income	11	982 682	121 106
Operating expenses		(7 203 825)	(10 070 382)
Operating surplus	13	**1 525 785**	**414 202**
Fair value adjustments	14	136 360	101 486
Finance costs	15	(542 973)	(649 088)
Surplus (deficit) for the year		**1 119 172**	**(133 400)**

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Balance at 01 July 2018	(13 887 092)	(13 887 092)
Changes in net assets		
Deficit for the year	(133 400)	(133 400)
Total changes	(133 400)	(133 400)
Balance at 01 July 2019	(14 020 485)	(14 020 485)
Changes in net assets		
Surplus for the year	1 119 172	1 119 172
Total changes	1 119 172	1 119 172
Balance at 30 June 2020	(12 901 313)	(12 901 313)

Cash Flow Statement

	Notes	2020	2019
Cash flows from operating activities			
Receipts			
Municipal grants		7 746 928	7 363 478
Other grants		-	3 000 000
Other receipts		5 476	121 106
		7 752 404	10 484 584
Payments			
Employee costs		(5 521 417)	(5 313 936)
Suppliers		(1 242 085)	(4 456 675)
Finance costs		(2 370)	(83 122)
Board members		(174 169)	(315 644)
		(6 940 041)	(10 169 377)
Net cash flows from operating activities	19	**812 363**	**315 207**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(25 217)	(62 772)
Cash flows from financing activities			
Finance lease payments		(34 352)	(102 995)
Net increase in cash and cash equivalents		**752 794**	**149 440**
Cash and cash equivalents at the beginning of the year		253 440	104 000
Cash and cash equivalents at the end of the year	3	**1 006 234**	**253 440**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Other income	-	-	-	982 682	982 682	29.2
Revenue from non-exchange transactions						
Transfer revenue						
Municipal grants	8 908 967	-	8 908 967	7 746 928	(1 162 039)	29.3
Total revenue	8 908 967	-	8 908 967	8 729 610	(179 357)	
Expenditure						
Personnel	(6 017 581)	315 113	(5 702 468)	(5 551 099)	151 369	29.4
Remuneration of board members	(300 000)	-	(300 000)	(174 169)	125 831	29.5
Depreciation and amortisation	(140 501)	(53 099)	(193 600)	(230 805)	(37 205)	29.6
Finance costs	-	(700)	(700)	(542 973)	(542 273)	29.7
Lease rentals on operating lease	(80 000)	-	(80 000)	(36 798)	43 202	
General Expenses	(1 168 783)	(261 314)	(1 430 097)	(1 210 954)	219 143	
Total expenditure	(7 706 865)	-	(7 706 865)	(7 746 798)	(39 933)	
Operating surplus	1 202 102	-	1 202 102	982 812	(219 290)	
Loss on disposal of assets and liabilities	(64)	-	(64)	-	64	
Fair value adjustments	-	-	-	136 360	136 360	29.8
	(64)	-	(64)	136 360	136 424	
Deficit	1 202 038	-	1 202 038	1 119 172	(82 866)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	1 202 038	-	1 202 038	1 119 172	(82 866)	

Port St Johns Development Agency NPC
(Registration number 1999/009129/08)
Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Non-Current Assets						
Purchase of property, plant and equipment	(40 000)	-	(40 000)	(25 217)	14 783	29.9
Total Assets	**(40 000)**	**-**	**(40 000)**	**(25 217)**	**14 783**	
	(40 000)	**-**	**(40 000)**	**(25 217)**	**14 783**	

Accounting Policies

	Notes	2020	2019

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 in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

These financial statements were prepared based on the expectation that the agency will not be able to continue to operate as a going concern for at least the next 12 months. This is due to the fact that the liabilities of the agency far exceeded its assets and the board, acting on a council resolution de-registered the Non Profit Company ("NPC") on the 30th of December 2016 and commenced with the registration of a State Owned Company ("SOC") which would carry on similar functions as the ones which were done by the NPC. Accordingly the agency adopted the liquidation basis of accounting, whereby assets are measured at the estimated amount of cash or other consideration that the agency expects to collect in settling or disposing of those assets and liabilities are measured at their estimated settlement amounts, including costs that the agency expects to incur through the end of its liquidation ("liquidation value"). These estimated amounts are undiscounted and are recorded to the extent the agency has a reasonable basis for estimation.

Under the plan of winding up, the agency plans to 1) transfer assets and liabilities of the agency back to the parent Municipality, and 2) liquidate the Section 21 Non Profit Company. The agency anticipates that the liquidation of the NPC will be completed on or about the 30th of June 2021.

Upon the adoption of the liquidation basis of accounting, the agency recorded the fair value adjustments (gain) to its property, plant and equipment of RNil (30 June 2019: R101 486) in the statement of financial performance as of the date of adoption.

The agency could not determine any reliable estimate of the liquidation costs as the liquidation process has not been commenced which would otherwise determine the related costs. As a result no accrual of these were made at 30 June 2020.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of valuein-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The agency reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors together with economic factors such as rates of inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 9 - Provisions.

Useful lives of property, plant and equipment

The agency's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the agency; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured 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 operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Accounting Policies

1.4 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

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

Item	Depreciation method	Average useful life
Plant and machinery	Straight-line	3 years
Furniture and fixtures	Straight-line	6 years
Motor vehicles	Straight-line	5 years
Office equipment	Straight-line	3 years
Computer equipment	Straight-line	3 years
Security measures	Straight-line	3 years
Signage	Straight-line	5 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the agency. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The agency assesses at each reporting date whether there is any indication that the agency expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the agency revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit.

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

Accounting Policies

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Accounting Policies

1.5 Financial Instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.5 Financial Instruments (continued)

Classification

The agency has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost

The agency has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

The agency recognises a financial asset or a financial liability in its statement of financial position when the agency becomes a party to the contractual provisions of the instrument.

The agency recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The agency measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The agency measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the agency establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Accounting Policies

1.5 Financial Instruments (continued)

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The agency assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

Derecognition

Financial assets

The agency derecognises financial assets using trade date accounting.

The agency derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the agency transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the agency, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the agency:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

Accounting Policies

1.5 Financial Instruments (continued)

If the agency transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

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

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the agency has retained substantially all the risks and rewards of ownership of the transferred asset, the agency continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the agency recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The agency removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the agency does not offset the transferred asset and the associated liability.

Accounting Policies

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

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

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

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

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the agency; or
- the number of production or similar units expected to be obtained from the asset by the agency.

Accounting Policies

1.7 Impairment of non-cash-generating assets (continued)

Designation

At initial recognition, the agency designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an agency's objective of using the asset.

The agency designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The agency designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the agency expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the agency designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The agency assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Accounting Policies

1.7 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the agency recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The agency assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the agency estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

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

1.8 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

Accounting Policies

1.8 Employee benefits (continued)

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the agency recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The agency measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The agency recognises the expected cost of bonus, incentive and performance related payments when the agency has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.9 Provisions and contingencies

Provisions are recognised when:
- the agency has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.9 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the agency settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating (deficit).

If the agency has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The agency recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the agency for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the agency considers that an outflow of economic resources is probable, an agency recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.10 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and

Accounting Policies

1.10 Commitments (continued)

- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.11 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the agency can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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 agency 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.

Accounting Policies

1.11 Revenue from non-exchange transactions (continued)

Measurement

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

When, as a result of a non-exchange transaction, the agency 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.

1.12 Investment income

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

1.13 Borrowing costs

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

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

1.14 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised 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.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) - this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

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

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

1.16 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Budget information

The Agency is subject to budgetary limits in the form of appropriations or budget authorisations, which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by agency shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.18 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the entity.

Accounting Policies

1.18 Related parties (continued)

The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.19 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The agency will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The agency will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.20 Conditional grant

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the agency has complied with any criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Notes to the Annual Financial Statements

	2020	2019

2. Receivables from exchange transactions, at liquidation value

Other receivables [1]	72 355	23 070

[1] These represent overpayments to suppliers which have been reclassified to receivables. The movement in current year is due to amounts overpaid to the Auditor-General South Africa which will be utilised against their invoices for the 2019/2020 audit of financial statements.

3. Cash and cash equivalents, at liquidation value

Cash and cash equivalents consist of:

Cash on hand	901	12
Bank balances	1 005 333	253 428
	1 006 234	**253 440**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
zaA-1+ [Absa Bank Ltd] S&P short term credit rating	1 005 333	253 428

The agency had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA Bank -Primary Account-40-6064-2488	922 345	18 579	68 695	922 345	18 579	68 695
ABSA Bank-Salaries Account-40-6320-8356	82 963	234 258	35 479	82 963	234 258	35 479
ABSA Bank-Mngazi to Manteku-40-7165-4521	25	591	(174)	25	591	(174)
Total	**1 005 333**	**253 428**	**104 000**	**1 005 333**	**253 428**	**104 000**

4. Property, plant and equipment, at liquidation value

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Plant and machinery	17 819	(15 290)	2 529	17 819	(14 465)	3 354
Furniture and fixtures	195 761	(171 680)	24 081	195 761	(163 816)	31 945
Motor vehicles	935 159	(633 559)	301 600	798 800	(473 800)	325 000
Office equipment	2 017	(2 016)	1	2 017	(2 016)	1
Computer equipment	305 968	(262 358)	43 610	280 751	(200 978)	79 773
Signage	28 936	(25 893)	3 043	28 936	(24 918)	4 018
Total	**1 485 660**	**(1 110 796)**	**374 864**	**1 324 084**	**(879 993)**	**444 091**

Notes to the Annual Financial Statements

	2020	2019

4. Property, plant and equipment, at liquidation value (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Fair value adjustment	Total
Plant and machinery	3 354	-	-	(825)	-	2 529
Furniture and fixtures	31 945	-	-	(7 864)	-	24 081
Motor vehicles	325 000	-	-	(159 760)	136 360	301 600
Office equipment	1	-	-	-	-	1
Computer equipment	79 773	25 217	-	(61 380)	-	43 610
Signage	4 018	-	-	(975)	-	3 043
	444 091	**25 217**	**-**	**(230 804)**	**136 360**	**374 864**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation	Fair value adjustment	Total
Plant and machinery	4 254	-	-	(900)	-	3 354
Furniture and fixtures	13 457	25 400	(3)	(6 909)	-	31 945
Motor vehicles	341 800	-	-	(118 286)	101 486	325 000
Office equipment	1	-	-	-	-	1
Computer equipment	110 271	32 872	(2)	(63 368)	-	79 773
Security measures	1	-	(1)	-	-	-
Signage	1 687	4 500	-	(2 169)	-	4 018
	471 471	**62 772**	**(6)**	**(191 632)**	**101 486**	**444 091**

Assets subject to finance lease (Net carrying amount)

	2020	2019
Motor vehicles	-	325 000

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance (General expenses)

	2020	2019
Motor vehicles	22 770	10 350
Other assets	19 870	6 698
	42 640	**17 048**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the agency.

Notes to the Annual Financial Statements

	2020	2019

5. Finance lease obligation, at liquidation value

	2020	2019
Minimum lease payments due		
- within one year	-	34 352
	-	34 352
less: future finance charges	-	(758)
Present value of minimum lease payments	-	33 594
Present value of minimum lease payments due		
- within one year	-	33 594

It is agency policy to lease motor vehicles and equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 10% (2019: 10%).

Interest rates were fixed at the contract date. All leases had fixed repayments and no arrangements were entered into for contingent rent.

The agency's obligations under finance leases were secured by the lessor's charge over the leased assets. Refer note .

6. Payables from exchange transactions, at liquidation value

	2020	2019
Trade payables and accruals	587 746	1 553 831
Staff union fees	2 311	1 166
Payroll creditors	223	223
Provision for leave pay and bonus	171 763	142 081
SARS- PAYE, UIF & SDL	-	95 623
	762 043	**1 792 924**

7. VAT payable, at liquidation value

	2020	2019
VAT payable	4 561 388	4 510 006

8. Conditional grants liabilities, at liquidation value

Conditional grants liabilities comprises of:

	2020	2019
Unspent conditional grants and receipts		
Mngazi to Manteku Project	20 095	20 095
Small Scale Fish Factory	1 011 550	1 011 550
Cutweni	1 219 989	1 219 989
	2 251 634	**2 251 634**

Movement during the year

	2020	2019
Balance at the beginning of the year	2 251 634	2 251 634

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the agency has directly benefited and fulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Notes to the Annual Financial Statements

	2020	2019

9. Provisions, at liquidation value

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
VAT provision	6 152 935	626 766	6 779 701

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
VAT provision	5 583 430	569 505	6 152 935

A provision occurred in respect of interest and penalties on output VAT payable to South African Revenue Services ("SARS"). The agency did not declare output VAT on grant received when submitting VAT returns from the year 2006 to 2013. It is probable that SARS will charge interest and penalties on this debt. SARS official interest rates were used to determine the interest payable while penalties were provided for at 10% of the VAT liability in line with SARS practices.

10. Revenue

	2020	2019
Administration and management fees received	-	98 601
Other income	982 682	22 505
Municipal grants	7 746 928	10 363 478
	8 729 610	**10 484 584**

	2020	2019
The amount included in revenue arising from exchanges of goods or services are as follows:		
Management fees received	-	98 601
Other income	982 682	22 505
	982 682	**121 106**

	2020	2019
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Grants	7 746 928	10 363 478

11. Other revenue

	2020	2019
Management fees received	-	98 601
Sundry income [1]	982 682	22 505
	982 682	**121 106**

[1]. Other income includes R977 203 payment made by the parent Municipality to the Auditor - General South Africa to settle the outstanding balance on behalf of the agency.

Notes to the Annual Financial Statements

	2020	2019

12. Government grants and subsidies

	2020	2019
Operating grants		
Port St Johns Local Municipality [1]	7 746 928	7 363 478
Eastern Cape Department of Economic Development and Environmental Affairs (DEDEA)	-	3 000 000
	7 746 928	**10 363 478**

[1] This is the annual budget allocation that the Agency receives from the Municipality to undertake the agreed mandate.

Conditional and Unconditional

Included in above are the following grants and subsidies received:

	2020	2019
Conditional grants received	-	3 000 000
Unconditional grants received	7 746 928	7 363 478
	7 746 928	**10 363 478**

Eastern Cape Department of Economic Development and Environmental Affairs (DEDEA)

	2020	2019
Current-year receipts	-	3 000 000
Conditions met - transferred to revenue	-	(3 000 000)
	-	-

The grant was received from Eastern Cape Department of Economic Development and Environmental Affairs (DEDEA) to provide funding for to the implementation of eradication of the invasion of alien plants focusing on Lantana Camara, Bug Weed and Ink Berry.

13. Operating surplus

Operating surplus for the year is stated after accounting for the following:

	2020	2019
Operating lease charges		
Equipment		
• Contractual amounts	36 798	85 600
Loss on sale of property, plant and equipment	-	(7)
Depreciation on property, plant and equipment	230 805	191 632
Employee costs	5 725 268	5 584 044

14. Fair value adjustments

	2020	2019
Re-measurement of assets at fair value	136 360	101 486

The fair value gain arose due to measurement of assets and liabilities at fair value at year end following adoption of the liquidation basis of preparation of financial statements.

15. Finance costs

	2020	2019
Finance leases	758	8 825
Interest on overdue accounts [1]	(86 921)	(12 365)
Interest on VAT [2]	626 766	652 622
Late payment of PAYE, UIF and SDL	2 370	6
	542 973	**649 088**

Notes to the Annual Financial Statements

	2020	2019

15. Finance costs (continued)

[1]. The interest is negative in the period due to reversals of interest which accumulated in prior periods by the suppliers follwing settlement of the liabilities.

[2]. The interest incurred is an estimate of amounts payable on output VAT payable to South African Revenue Services ("SARS"). The agency did not declare output VAT on grant received when submitting VAT returns from the year 2006 to 2013. It is probable that SARS will charge interest and penalties on this debt. SARS official interest rates were used to determine the interest payable in line with SARS practices.

16. Lease rentals on operating lease

	2020	2019
Equipment		
Contractual amounts	36 798	85 600

17. General expenses

	2020	2019
Accounting fees	274 936	208 750
Advertising	19 450	13 680
Annual fees	535	495
Audit committee remuneration	18 000	-
Auditors remuneration	417 196	315 612
Bank charges	14 734	25 230
Business plan	-	17 450
Catering and refreshments	13 655	12 791
Cleaning	11 559	12 202
Computer expenses	-	2 007
Conferences and seminars	5 950	1 500
Insurance	81 346	58 689
Motor vehicle expenses	37 495	32 163
Office administration	-	316
Printing and stationery	44 475	33 840
Project expenses	24 180	3 003 700
Repairs and maintenance	19 870	6 698
Software and licensing upgrades	23 229	14 071
Staff development	-	1 350
Staff welfare	2 631	5 367
Telephone and fax	38 179	83 638
Travel - local	163 534	347 025
Uniforms	-	12 525
	1 210 954	**4 209 099**

18. Auditors' remuneration

	2020	2019
Fees	417 196	315 612

Notes to the Annual Financial Statements

	2020	2019

19. Cash generated from operations

	2020	2019
Surplus (deficit)	1 119 172	(133 400)
Adjustments for:		
Depreciation and amortisation	230 805	191 632
Gain on sale of assets and liabilities	-	7
Fair value adjustments	(136 360)	(101 486)
Finance costs - Finance leases	758	8 825
Movements in provisions	626 766	569 505
Other non-cash items	5	(17)
Non-cash donation	(977 203)	-
Changes in working capital:		
Receivables from exchange transactions	(49 285)	(23 070)
Payables from exchange transactions	(53 677)	(32 817)
VAT	51 382	(163 972)
	812 363	**315 207**

20. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions, at liquidation value	72 355	72 355
Cash and cash equivalents, at liquidation value	1 006 234	1 006 234
	1 078 589	**1 078 589**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions, at liquidation value	803 626	803 626
VAT payable, at liquidation value	4 561 388	4 561 388
Unspent conditional grants liabilities, at liquidation value	2 251 634	2 251 634
	7 616 648	**7 616 648**

Notes to the Annual Financial Statements

	2020	2019

20. Financial instruments disclosure (continued)

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions, at liquidation value	23 070	23 070
Cash and cash equivalents, at liquidation value	253 481	253 481
	276 551	**276 551**

Financial liabilities

	At amortised cost	Total
Finance lease obligation, at liquidation value	33 594	33 594
Payables from exchange transactions, at liquidation value	1 771 918	1 771 918
VAT payable, at liquidation value	4 510 012	4 510 012
Unspent conditional grants liabilities, at liquidation value	2 251 634	2 251 634
	8 567 158	**8 567 158**

Financial instruments in Statement of financial performance

2020

	At amortised cost	Total
Interest expense	635 425	635 425

2019

	At amortised cost	Total
Interest expense	649 088	649 088

21. Commitments

Authorised operational expenditure

Already contracted for but not provided for		
• Reliable Accountants	219 345	535 522
Total operational commitments		
Already contracted for but not provided for	219 345	535 522

Total commitments

Total commitments		
Authorised operational expenditure	219 345	535 522

This committed expenditure relates to ongoing operating activities and will be financed by existing cash resources and funds internally generated.

Notes to the Annual Financial Statements

	2020	2019

22. Related parties

Relationships

Director	Refer to director's report note 5
Controlling entity	Port St Johns Local Municipality
Members of key management	Mrs. NP Busuku - Former Chief Executive Officer
	Mr. PE Mafuna - Acting Chief Executive Officer

Related party transactions

	2020	2019
Grants received from related parties		
Port St Johns Local Municipality [1]	7 746 928	10 363 478

[1] This disclosure was inccorrectly made in the previous year as R7 363 478. The additinal Grant received of R3 000 000 for the eradication of alien plants project was not disclosed. This was only an error in disclosure. All the other entries were corectly accounted for.

Figures in Rand

22. Related parties (continued)

Remuneration of management

Management class: Executive management

2020

Name	Basic salary	Acting Allowance	Total
PE Mafuna - Acting CEO	286 743	460 190	746 933
NP Busuku - Former CEO	139 299	-	139 299
	426 042	**460 190**	**886 232**

2019

Name	Basic salary	Acting Allowance	Total
NP Busuku - Former CEO	1 108 760	-	1 108 760

Notes to the Annual Financial Statements

	2020	2019

23. Directors' emoluments

Non-executive

2020

	Director's fees	Total
X Mvinjelwa - Chairperson	25 209	25 209
A Nyikinya	26 120	26 120
AL Bewana	8 980	8 980
N Balfour	22 060	22 060
L Mbane	20 000	20 000
EBF Makiwane	20 000	20 000
LS Nduku	29 740	29 740
N Ntakati-Futwa	22 060	22 060
	174 169	**174 169**

2019

	Director's fees	Total
X Mvinjelwa - Chairperson	64 220	64 220
A Nyikinya	58 524	58 524
AL Bewana	20 000	20 000
N Balfour	38 960	38 960
L Mbane	16 000	16 000
EFB Makiwane	40 000	40 000
LS Nduku	36 720	36 720
N Mtakati-Futwa	41 220	41 220
	315 644	**315 644**

24. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the agency's risk management framework. The agency's risk management policies are established to identify and analyse the risks faced by the agency, to set appropriate risk limits and controls and to monitor and adherence to limits.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the parent municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

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

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

Notes to the Annual Financial Statements

	2020	2019

25. Going concern

We draw attention to the fact that at 30 June 2020, the entity had an accumulated (deficit) of (12 901 313) and that the entity's total liabilities exceed its assets by (12 901 313).

The budget allocations from the parent Municipality have not been adequate to cover all obligations of the agency over the years. This resulted in the agency either failing to pay the liabilities or paying them late. The liabilities accumulated and in some instance penalties and interest charges were incurred while the underfunding continued. The Board is currently engaging the parent Municipality for a council resolution to wind up the agency operations and liquidate the Section 21 Company.

These financial statements were prepared based on the expectation that the agency will not be able to continue to operate as a going concern for at least the next 12 months. This is due to the fact that the liabilities of the agency far exceeded its assets and the board, acting on a council resolution de-registered the Non Profit Company ("NPC") on the 30th of December 2016 and commenced with the registration of a State Owned Company ("SOC") which would carry on similar functions as the ones which were done by the NPC. Accordingly the agency adopted the liquidation basis of accounting, whereby assets are measured at the estimated amount of cash or other consideration that the agency expects to collect in settling or disposing of those assets and liabilities are measured at their estimated settlement amounts, including costs that the agency expects to incur through the end of its liquidation ("liquidation value"). These estimated amounts are undiscounted and are recorded to the extent the agency has a reasonable basis for estimation.

26. Events after the reporting date

The agency continues to pursue the winding up of the agency with the parent Municipality. At the date of authorisation of these financial statements, the council resolution to transfer the assets and liabilities of the agency to the Municipality and to liquidate the Section 21 company was still pending.

27. Fruitless and wasteful expenditure

	2020	2019
Opening balance as previously reported	7 558 046	6 897 210
Opening balance as restated	**7 558 046**	**6 897 210**
Interest and penalties - VAT	626 766	652 622
Interest and penalties - PAYE, UIF and SDL	2 370	6
Interest on overdue accounts	-	8 208
Closing balance	**8 187 182**	**7 558 046**

In the current year, fruitless and wasteful expenditure was incurred. Penalties and interest were charged as a result of the late submission and non-payment of tax dues being Value Added Taxation. Interest was also incurred on late payment of Auditor-General account during the year. This is as a result of the Agency being in financial stress. The same applies to the rest of arrear interest incurred. Fruitless and wasteful expenditure was also incurred in respect to interest charged by SARS for VAT output that was not being paid to SARS since 2006.

Fruitless and wasteful expenditure incurred previous years has not yet been investigated. Investigations will be investigated by The Municipal Public Accounts Committee of the Municipality.

Notes to the Annual Financial Statements

	2020	2019

28. Irregular expenditure

Opening balance	6 835 991	6 835 991

Analysis of expenditure awaiting condonation per age classification

Prior years	6 835 991	6 835 991

There was no new irregular expenditure incurred in current year. Irregular expenditure incurred previous years has not yet been investigated. Investigations will be investigated by The Municipal Public Accounts Committee of the Municipality.

29. Budget differences

29.1 Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 10% over approved budget and or numerically above R100 000 are explained below. There were no other material differences between the final budget and the actual amounts.

29.2. Other income

There was no budgeted revenue of this but during the year the parent Municipality made a payment of R977 203 to the Auditor-General South Africa on behalf of the Agency to support the latter in solcing its financial problems.

29.3. Municipal grants

The Agency received all the budgeted grants. However, the agency budgeted the grant inclusive of VAT while the actual amount received as stated in the Statement of Financial Performance is excluse of VAT causing the variance of R1.1million.

29.4. Personnel

The agency did not utilise the full budget due to vacancies which are yet to be filled.

29.5. Remuneration of board members

This was below the budgeted amount due to the fact that the term of office of the board members ended in December 2019 and no new board members were appointed.

29.6. Depreciation

This was more than budgeted due to the increase in value of assets being depreciated.

29.7. Finance costs

Finance costs incurred are more than the budgeted amounts due to penalties and interest incurred on the outstanding VAT liabilities.

29.8. Fair value adjustments

The variance arose due to the gain realised on fair valuation of assets at the end of the year following adoption of liquidation basis for financial reporting. This was not budgeted for.

29.9. Purchase of property, plant and equipment

The agency delayed purchase of some items of property, plant and equipment that were budgeted.

Detailed Income statement

	Notes	2020	2019
Revenue			
Revenue from exchange transactions			
Administration and management fees received		-	98 601
Other income		982 682	22 505
Total revenue from exchange transactions		**982 682**	**121 106**
Revenue from non-exchange transactions			
Grants			
Grants	12	7 746 928	7 363 478
Other grants		-	3 000 000
Total revenue from non-exchange transactions		**7 746 928**	**10 363 478**
Total revenue	10	**8 729 610**	**10 484 584**
Expenditure			
Employee related costs		5 551 099	5 268 400
Remuneration of board members		174 169	315 644
Depreciation and amortisation		230 805	191 632
Finance costs	15	542 973	649 088
Lease rentals on operating lease	16	36 798	85 600
General Expenses	17	1 210 954	4 209 099
Total expenditure		**7 746 798**	**10 719 463**
Operating surplus (deficit)	13	**982 812**	**(234 879)**
Loss on disposal of assets and liabilities		-	(7)
Fair value adjustments	14	136 360	101 486
		136 360	**101 479**
Surplus (deficit) for the year		**1 119 172**	**(133 400)**

The supplementary information presented does not form part of the unaudited interim financial statements and is unaudited

PORT ST. JOHNS DEVELOPMENT AGENCY

Audit Report

For the year ended 30 June 2020

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to Eastern Cape Provincial Legislature and Council: Port St Johns Development Agency

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Port St Johns Development Agency set out on pages ...to ..., which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements of Port St Johns Development Agency as at 30 June 2020 are prepared, in all material respects, in accordance with the basis of presentation as described in note 1 to the financial statements and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (the Companies Act).

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 this auditor's report.

4. I am independent of the agency in accordance with the International Ethics Standards Board for Accountants' International *code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other 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.

6. Except for the material uncertainty relating to going concern section, I have determined that there are no other key audit matters to communicate in this auditor's report.

Material uncertainty relating to going concern

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

8. I draw attention to note 25 to the financial statements, which indicates that the agency had an accumulated deficit of R12.9 million and that the agency's total liabilities exceeded its total assets by R12.9 million. As stated in note 25, these events or conditions, along with the other

matters as set forth in note 25, indicate that a material uncertainty exists that may cast significant doubt on the agency's ability to continue as a going concern.

Emphasis of matter

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

Basis of Presentation

10. As disclosed in note 1 to the financial statements, the financial statements are prepared in accordance with the company's own accounting policies, as the agency adopted the liquidation basis of accounting.

Other matters

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

Unaudited disclosure notes

12. In terms of section 125(2) (e) of the MFMA the entity is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary information

13. The supplementary information set out on pages 42 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

14. The board of directors, which constitutes the accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and Companies Act, 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.

15. In preparing the financial statements, the accounting officer is responsible for assessing the municipal 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 the appropriate governance structure either intends to liquidate the municipal entity or to cease operations, or has no realistic alternative but to do so.

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

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

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

Report on the audit of the annual performance report

Introduction and scope

18. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

19. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipal entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective, presented in the municipal entity's annual performance report for the year ended 30 June 2020:

Objective	Pages in the annual performance report
Objective 4 – Business Development and Special Projects	x – x

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. I did not identify any material findings on the usefulness and reliability of the reported performance information for Business Development and Special Projects Objective 4.

Other matters

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

Achievement of planned targets

24. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

Adjustment of material misstatement

25. I identified a material misstatement in the annual performance report submitted for auditing. The material misstatement was on the reported performance information of Development Objective 4- Business development and special projects. As management subsequently corrected the misstatement, we did not raise any material findings on the reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipal entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. The material findings on compliance with specific matters in key legislation are as follows:

Expenditure management

28. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R629 136 as disclosed in note 27 to the annual financial statements, in contravention of section 95(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged on non-payment of VAT.

Consequence management

29. Irregular expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure, as required by municipal budget and reporting regulations 75(1).

30. Fruitless and wasteful expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure, as required by municipal budget and reporting regulations 75(1).

Reckless Trading

31. The entity had conducted its business recklessly in the current financial year as it had deregistered the non-profit company (NPC) effective 30 November 2016 without following

appropriate and adequate procedural requirements. The entity furthermore carried on trading subsequent to deregistration while also being insolvent and illiquid.

Other information

32. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report and the audit committee's report, as required by the Companies Act 71 of 2008. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

33. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

34. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

35. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

36. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

37. There is a slow response by administrative and political leadership in addressing the liquidation of the non-profit company and finalisation of the process to form the state owned company, in order to address the liquidity and reckless trading issues that have been consistently reported in the prior years by the external auditors.

38. There has been inadequate oversight over non-compliance with legislation due to repeat findings in these areas.

Auditor - General

East London

28 February 2021

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected objective and on the municipal entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this 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 municipal entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes 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 relating to events or conditions that may cast significant doubt on the ability of the Port St Johns Development Agency 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 my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipal entity to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine 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, the actions taken to eliminate threats or the safeguards applied.