

INKOMATI CATCHMENT MANAGEMENT AGENCY

REPORT OF THE ACCOUNTING AUTHORITY *for the year ended 31 March 2013*

The accounting authority has pleasure in presenting its report for the year ended 31 March 2013

1 Review of the activities

The Inkomati Catchment Management Agency (ICMA) is responsible for the integrated management of the water resource in the Inkomati Water Management Area.

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

The deficit for the year amounted to R12 510 049 (2012 surplus R7 804 082)

During the financial year under review the Agency utilised accumulated surpluses arising from underspending of the budget in prior years towards the funding of current years expenditure which has resulted in the deficit for the year

2 Members

The members of the Governing Board of the Agency during the year and to date of this report are as follows:

T.P. Nyakane-Maluka (Chairperson)
C.J.H. du Preez (Acting Deputy Chairperson from 29 November 2011)
L.S. Masilela
E.G. Mashele
B.K. Mokoena
S.E. Thwala
F. Roux
T.G. Mokoena

The members of the Audit Committee of the Agency during the year and to date of this report are as follows:

M.S. Mthembu (Chairperson)
N.L. Mathebula
M. Secker (Appointed on 8 August 2012)
S.E. Thwala
L.S. Masilela

INKOMATI CATCHMENT MANAGEMENT AGENCY

REPORT OF THE ACCOUNTING AUTHORITY - CONTINUED

for the year ended 31 March 2013

3 Post balance sheet events

There were significant delays in the transfers of the 2013/14 budget from the DWA which resulted in cashflow challenges for the ICMA. The impact of which will require a review of the planned activities for the 2013/14 financial year in order to maintain a healthy financial status, there is no fruitless or wasteful expenditure incurred to date. There is nothing else that the Board wishes to draw attention to that has not already been highlighted elsewhere in the annual report, other than the fact that due to the restructuring of the Agency a Chief Operating Officer was appointed to start on the 1 April 2013 and an Executive Corporate Services to start on the 1 June 2013.



INKOMATI CATCHMENT MANAGEMENT AGENCY

STATEMENT OF FINANCIAL POSITION at 31 March 2013

	Notes	2013 R	2012 R
ASSETS			
Non-current assets			
Property, plant and equipment	4	2,818,100	2,538,106
Deposits		195,900	195,900
Current assets			
Trade & Other Receivables	5	439,892	124,507
Cash and cash equivalents	6	15,337,850	27,224,298
TOTAL ASSETS		18,791,742	30,082,811

NET ASSETS AND LIABILITIES

Net assets			
Accumulated surplus		13,464,557	25,974,606
Liabilities			
Non-Current liabilities			
Finance lease obligations	12	332,805	109,040
Current liabilities			
Accounts payable	7	4,322,015	3,499,036
Provisions	9	509,918	394,739
Finance lease obligations - short term	12	162,447	105,390
		18,791,742	30,082,811

INKOMATI CATCHMENT MANAGEMENT AGENCY

STATEMENT OF FINANCIAL PERFORMANCE *for the year ended 31 March 2013*

	Notes	2013 R	2012 R
Revenue	2	22,327,186	34,766,713
Operating and administrative expenditure		(35,688,780)	(27,514,762)
(Deficit)/Surplus from operations	3	(13,361,594)	7,251,951
Finance income		909,101	587,850
Finance costs		(57,556)	(35,719)
(Deficit)/Surplus for the year		(12,510,049)	7,804,082



INKOMATI CATCHMENT MANAGEMENT AGENCY

STATEMENT OF CHANGES IN NET ASSETS for the year ended 31 March 2013

	Accumulated (Deficit)/Surplus R	Totals R
2007		
Balance as at 1 September 2006	-	-
Net surplus for the year	601,343	601,343
Balance at 31 March 2007	601,343	601,343
2008		
Net surplus for the year	4,547,962	4,547,962
Balance at 31 March 2008	5,149,305	5,149,305
2009		
Net deficit for the year	(6,475,908)	(6,475,908)
Balance at 31 March 2009	(1,326,603)	(1,326,603)
2010		
Net surplus for the year	7,432,083	7,432,083
Balance at 31 March 2010	6,105,480	6,105,480
2011		
Net surplus for the year	12,065,044	12,065,044
Balance at 31 March 2011	18,170,524	18,170,524
2012		
Net surplus for the year	7,804,082	7,804,082
Balance at 31 March 2012	25,974,606	25,974,606
2013		
Net deficit for the year	(12,510,049)	(12,510,049)
Balance at 31 March 2013	13,464,557	13,464,557

INKOMATI CATCHMENT MANAGEMENT AGENCY

CASH FLOW STATEMENT for the year ended 31 March 2013

		2013 R	2012 R
	<i>Notes</i>		
Cash flows from operating activities			
Cash receipts from Department of Water Affairs		22,327,186	34,766,713
Cash paid to suppliers and employees		(33,969,693)	(24,318,236)
Cash generated by operating activities.	11	(11,642,507)	10,448,477
Finance income		909,101	587,850
Finance costs		(57,556)	(35,719)
Net cash inflow from operating activities		(10,790,962)	11,000,608
Cash flows from investing activities			
Acquisition of property, plant and equipment	4	(1,376,308)	(1,698,862)
Increase in deposits		-	(195,900)
Net cash outflow from investing activities		(1,376,308)	(1,894,762)
Cash flows from financing activities			
Finance lease obligation		280,822	(534)
Net increase in cash and cash equivalents		(11,886,448)	9,105,312
Cash and cash equivalents at beginning of the year		27,224,298	18,118,986
Cash and cash equivalents at end of the year	6	<u>15,337,850</u>	<u>27,224,298</u>

INKOMATI CATCHMENT MANAGEMENT AGENCY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS for the year ended 31 March 2013

	Approved Budget	Adjustments	Final Budget	Actual Amounts on Comparable basis	Difference Between Final Budget and Actual
Receipts					
Investment Revenue	-	-	-	909,101	909,101
Grant Revenue	22,327,186	-	22,327,186	22,327,186	-
Total Receipts	22,327,186	-	22,327,186	23,236,287	909,101
Payments					
Employee Costs	28,726,337	(8,864,764)	19,861,573	17,160,475	2,701,098
Operating Expenses	20,708,065	5,944,219	26,652,284	16,809,218	9,843,066
Finance Charges	40,000	25,000	65,000	57,556	7,444
Total Payments	49,474,402	(2,895,545)	46,578,857	34,027,249	12,551,608
Net Receipts/ (Payments)	(27,147,216)	2,895,545	(24,251,671)	(10,790,962)	(11,642,507)

Note

The budget is approved on a cash basis by functional classification. The approved budget covers the period from 1 April 2012 to 31 March 2013. The budget and accounting bases differ. The financial statements are prepared on the accrual basis using a classification on the nature of expenses in the statement of financial performance.

The financial statements differ from the budget, which is approved on the cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. The amounts of these adjustments are identified in the above table.

A reconciliation between the actual amounts on a comparable basis as presented in the statement of comparison of budget and actual amounts and the actual amounts in the cash flow statement for the period ended 31 March 2013 is presented in Note 13. The financial statements and budget documents are prepared for the same period. There is a basis difference: the budget is prepared on a cash basis and the financial statements on the accrual basis.

INKOMATI CATCHMENT MANAGEMENT AGENCY

ACCOUNTING POLICIES

for the year ended 31 March 2013

The financial statements incorporate the principal accounting policies set out below.

1 Statement of compliance

The financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP).

2 Basis of preparation

The financial statements are prepared on the historical cost basis, except for financial instruments carried at fair value.

3 Property, plant and equipment

Items of property, plant and equipment and motor vehicles are stated at historical cost less accumulated depreciation and accumulated impairment losses.

The expected useful lives of these assets are as follows:

Computer equipment	3 years
Furniture and fittings	5 years
Office equipment	5 years
Motor vehicles	5 years

Depreciation is provided on the straight-line basis, over the estimated useful lives of the assets. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

INKOMATI CATCHMENT MANAGEMENT AGENCY

ACCOUNTING POLICIES *for the year ended 31 March 2013*

4 Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases.

Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Finance leases

The entity leases certain office equipment. Leases of office equipment where the entity has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the leases's commencement, at the lower of the fair value of the leased equipment and the present value of the minimum payments.

Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in short-term and long term interest bearing borrowings. The interest element of the finance cost is charged in the statement of financial performance over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The office equipment acquired under the finance lease is depreciated over the shorter of the useful life of the asset term.

5 Revenue

Revenue comprises government grants, which are brought to account in the year in which the amounts are due.

6 Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies, should any exist at year-end, are translated at the rate of exchange ruling at the reporting date. Gains and losses arising on translation are credited to or charged against income.

7 Employee benefits

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.



INKOMATI CATCHMENT MANAGEMENT AGENCY

ACCOUNTING POLICIES
for the year ended 31 March 2013

8 Financial instruments

Initial recognition

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the entity's statement of financial position when the entity becomes party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. Such provisions for impairment of trade receivables are established if there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of receivables.

Trade and other payables

Trade payables are carried at fair value of the consideration to be paid in future for goods or services that have been received or supplied and invoiced or formally agreed with the supplier.

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdraft.

9 Provisions

Provisions are recognised when the entity has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the risks specific to the obligation.



INKOMATI CATCHMENT MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2013

1 Income tax

No provision for income tax is made as the Inkomati Catchment Management Agency Board is exempt from payment thereof in terms of section 10(1)(cA)(i) of the Income Tax Act.

	2013 R	2012 R
2 Revenue		
Government Grant from the Department of Water Affairs	22,327,186	34,766,713
Transferred to Statement of financial performance	<u>22,327,186</u>	<u>34,766,713</u>

3 (Deficit)/Surplus from operations

The (loss)/surplus from operations is arrived at after taking into account the following items:

	2013 R	2012 R
Auditors' remuneration		
External audit fee		
Current year	121,192	102,600
Accommodation	529,233	479,578
Advertising and Marketing	794,496	510,897
Computer expenses	383,860	382,008
Conference facilities	648,276	413,370
Consulting fees (Project Expenditure)	5,001,971	5,724,993
Depreciation of property, plant and equipment	1,096,314	647,890
Electricity	418,347	204,244
Laboratory testing	749,849	-
Maintenance office furniture and equipment	154,193	60,421
Motor vehicle hire	78,969	38,954
Operating lease - office and other equipment	3,762,385	1,976,749
Printing and stationery	183,558	93,354
Telephone and fax	371,728	217,916
Training and staff development	525,027	234,495
Travel and subsistence	1,602,089	1,007,419
Employee costs	17,160,475	13,636,713

INKOMATI CATCHMENT MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2013

3 (Deficit)/Surplus from operations (continued)

Members' remuneration: non-executive members
- Fees for services as Board members - aggregate

	Reimbursive allowance 2013 R	Remuneration 2013 R	Reimbursive allowance 2012 R	Remuneration 2012 R
T.P. Nyakane-Maluka (Chairperson)	48,470	367,963	24,462	232,608
C.J.H. du Preez (Acting Deputy Chairperson)	29,590	303,664	18,460	163,385
E.G. Mashele	-	132,920	-	86,722
L.S. Masilela	3,389	79,013	2,493	75,214
B.K. Mokoena	31,649	209,093	23,988	130,095
F. Roux	19,464	106,582	16,848	80,735
S.E. Thwala	795	117,696	763	58,593
T.G. Mokoena	2,470	175,230	1,318	111,406
	135,827	1,492,161	88,332	938,758

- Fees for services as Audit Committee members - aggregate

M.S. Mthembu (Chairperson)	1,325	57,349	1,167	34,665
N.L. Mathebula	10,487	16,435	15,719	18,239
M. Secker	639	7,788	-	-
S.E. Thwala	61	13,130	165	24,292
L.S. Masilela	698	28,179	875	29,504
	13,210	122,881	17,926	106,700

Management's remuneration

- Executive managers - aggregate

Chief Operating Officer (appointed 1 April 2013 (Acting Chief Executive Officer from 1 April 2013)	-	-	-	-
Executive Manager: Institutions and Participation (position removed from organogram on 30 September 2012)	66,442	441,896	92,603	875,684
Executive Manager: Water Use (position removed from organogram on 30 September 2012) (Acting Chief Executive Officer from 13 August 2012 to 31 March 2013)	116,914	1,099,473	106,086	858,752
Executive Manager: Corporate and Finance (Chief Financial Officer) (position removed from organogram on 30 September 2012) (Acting Chief Financial Officer from 1 October 2012 to 31 March 2013)	62,766	946,437	60,173	893,515
Executive Manager: Water Resource Planning and Programmes (position removed from organogram on 30 September 2012) (Acting Chief Executive Officer from 1 March 2012 to 8 August 2012)	17,024	504,474	112,717	972,638
	263,146	2,992,280	371,579	3,600,589

Staff Remuneration – other employees

	756,033	14,168,195	449,141	10,036,124
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INKOMATI CATCHMENT MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 March 2013*

		2013 R	2012 R		
4	Property, plant and equipment				
		Depreciation rate %	Cost/ Valuation R	Accumulated depreciation R	Carrying amount R
2013					
	Motor vehicles	20	609,184	243,674	365,510
	Computer equipment	33	2,724,847	1,503,055	1,221,792
	Furniture and fittings	20	1,296,585	706,350	590,235
	Office equipment	20	1,002,146	361,583	640,563
			5,632,762	2,814,662	2,818,100
2012					
	Motor vehicles	20	609,184	121,837	487,347
	Computer equipment	33	2,306,709	874,732	1,431,977
	Furniture and fittings	20	969,163	571,742	397,421
	Office equipment	20	371,397	150,036	221,361
			4,256,453	1,718,347	2,538,106

INKOMATI CATCHMENT MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Carrying value at beginning of period R	Additions/ Valuation R	Disposals/ Scrapping R	Depreciation R	Carrying value at end of year R
2012					
Motor vehicles	609,184	-		121,837	487,347
Computer equipment	422,289	1,275,070		265,382	1,431,977
Furniture and fittings	226,948	314,362		143,889	397,421
Office equipment	228,713	109,430		116,782	221,361
	<u>1,487,134</u>	<u>1,698,862</u>	<u>-</u>	<u>647,890</u>	<u>2,538,106</u>
Assets subject to finance lease (carrying value)				2013	2012
				R	R
Office equipment				<u>473,045</u>	<u>200,393</u>

5 Trade and other receivables from exchange transactions

Prepayments	435,593	37,478
Sundry debtors	4,299	87,029
	<u>439,892</u>	<u>124,507</u>

6 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with the banking institutions. The primary banking account is a current account with ABSA Bank. The agency has a call account with the Corporation for Public Deposits for investing surplus funds at better rates of interest. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

ABSA Current Account	3,525,562	7,216,216
Corporation for Public Deposits	11,810,288	20,006,082
Petty cash float	2,000	2,000
Cash and cash equivalents	<u>15,337,850</u>	<u>27,224,298</u>

INKOMATI CATCHMENT MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2013

	2013 R	2012 R
7 Accounts payable		
Sundry creditors	819,111	250,570
Trade creditors and accruals	3,502,904	3,248,466
	<u>4,322,015</u>	<u>3,499,036</u>

8 Retirement benefits

The Agency employs the services of Akani Retirement Fund Administrators (Pty) Ltd to invest the employee contribution into their own fund named Bokamoso Retirement Fund. The fund is a defined contribution fund.

9 Provisions

Provisions	<u>509,918</u>	<u>394,739</u>
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Reconciliation of provisions

Opening balance	394,739	375,597
Additions during period	<u>115,179</u>	<u>19,142</u>
Balance end of year	<u>509,918</u>	<u>394,739</u>

This provision is created based on staff leave days outstanding at year end which might have to be paid out to them if they are to leave the Agency. The leave provision was calculated based on cost to company for each individual and the leave days not taken at year end for each individual employee.

INKOMATI CATCHMENT MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2013

	2013 R	2012 R
10 Commitments		
Operating leases:		
- payable within one year	3,615,686	3,615,686
- payable between 2 and 5 years	9,384,033	12,999,719
	<u>12,999,719</u>	<u>16,615,405</u>
11 Cash generated by operations:		
Operating (deficit)/surplus	(12,510,049)	7,804,082
Adjustments for		
Finance income	(909,101)	(587,850)
Depreciation of property, plant and equipment	1,096,314	647,890
Finance costs	57,556	35,719
	<u>(12,265,280)</u>	<u>7,899,841</u>
Changes in working capital		
Increase in trade and other receivables	(315,385)	(51,647)
Increase in accounts payable	822,979	2,581,141
Increase in Provisions	115,179	19,142
	<u>(11,642,507)</u>	<u>10,448,477</u>
12 Finance lease obligation		
Minimum lease payments due		
Within one year	201,346	135,283
In second to fifth year	374,703	122,093
Later than five year	-	-
	<u>576,049</u>	<u>257,376</u>
Less: Future finance charges	80,797	42,946
	<u>495,252</u>	<u>214,430</u>
Present value of minimum lease payments		
Within one year	162,447	105,390
In second to fifth year	332,805	109,040
Later than five year	-	-
	<u>495,252</u>	<u>214,430</u>

INKOMATI CATCHMENT MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2013

	2013 R	2012 R
Finance lease obligation (continued)		
Non-current lease obligation	332,805	109,040
Current portion of lease obligation	162,447	105,390
	<u>495,252</u>	<u>214,430</u>

The total future minimum sublease payment expected to be received under non-cancellable sublease.

The average lease term is three years and the average effective borrowing rate was 17.9%

No arrangements have been entered into for contingent rentals

The entity's obligations under the finance lease are secured by the lessor's charge over the leased assets.

The leases do not contain a renewal option and ownership remains with the lessor.

13 Reconcillation between budget and cash flow statement

Reconcillation of net surplus per approved budget with the net cash generated from operating, investing and financing activities

	R Operating	R Financing	R Investing	R Total
Net loss per approved budget	(25,974,602)	-	1,824,000	(24,150,602)
Other timing differences	13,526,510	280,822	(447,692)	13,359,640
Actual amount in the cash flow statement	(12,448,092)	280,822	1,376,308	(10,790,962)

The institution utilised some of the net cash generated from operating, investing and financing activities accumulated from prior financial years towards its budget requirements for the current financial year under review, thereby reducing the Government Grant requirements from the Department of Water Affairs for the current financial year under review. The timing differences are mainly due to delays in recruitment of staff as per the organogram and the implementation of major projects.

INKOMATI CATCHMENT MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2013

14 Risk Management

Risk management is carried out by an appointed committee under policies approved by the Governing Board. The committee identifies, evaluates and hedges financial risks in close co-operation with operating units. The Governing Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and investment of excess liquidity.

Market Risk

Comprises the interest rate risk arising from the disclosed finance lease obligations.

Credit Risk

Arises from cash and cash equivalents and deposits with banks and financial institutions.

Liquidity Risk

Cash flow forecasting is performed to ensure sufficient funds to meet operational needs.

Capital Risk

The objective here is to safeguard the ability to continue as a going concern.

15 Events after reporting date

There were significant delays in the transfers of the 2013/14 budget from the DWA due to the dispute referred to in note 17 below, which resulted in cashflow challenges for the ICMA. The impact of which will require a review of the planned activities for the 2013/14 financial year in order to maintain a healthy financial status.

16 Comparative figures

No comparative figures are reclassified.

17 Contingent Liability

At year end 31 March 2013 there was a dispute between ICMA and the Department of Water Affairs (DWA) pertaining to transfers from the 2011/12 financial year wherein DWA made a transfer to the ICMA for funds more than they had approval from National Treasury to transfer. DWA later sought condonement of the transaction which was not granted by National Treasury. The amount in dispute is R4 896 000. The ICMA is of the opinion that the funds will be recovered by DWA through reduction of the 2013/14 budget allocation of transfers and the outcome is yet to be communicated.