

## MONTHLY FINANCIAL MANAGEMENT REPORT AS AT END SEPTEMBER 2018

(9/1/3/6)

Cluster : Finance  
Portfolio : Financial Management

### 1. PURPOSE

The purpose of the report is to reflect the financial position of the Municipality for the month of SEPTEMBER 2018.

### 2. OBJECTIVE

The objective of this report is to assist Council to exercise their oversight function to:

- a) Makes rational decisions about the allocation of resources;
- b) Assess the current provision of services, as well as the sustainability of future service delivery;
- c) Assess how officials have discharged their accountability responsibilities;
- d) Ensure transparency in respect of the municipality's financial position and operating results;
- e) Assess the performance of the municipality measured against preset targets and objectives;
- f) Inform Council on how cash and other liquid resources were obtained and utilized;
- g) Assess whether financial resources were administered in accordance with legislative and regulatory requirements; and
- h) Promote comparative information for prior periods and actual results against budgeted or planned results;

### 3. LEGISLATIVE REQUIREMENTS:

It is important for a municipality to report in order to comply with comprehensive legislative and contractual requirements, regulations, restriction and agreements. Effective financial reporting should therefore not only involve the presentation of bare financial facts but should also make provision for compliance issues, integration and interpretation. This will enable interested parties to readily comprehend the significant aspects of a municipality's financial operations.

This report is compiled as per the requirements of Sections 54 and 71 of the Local Government: Municipal Finance Management Act, 56 of 2003 (MFMA).

### 4. BACKGROUND

With reference to section 71 above, *"the accounting officer must by no later than 10 working days after the end of each month submit to National treasury and other spheres of government the SEPTEMBER report of the municipality a statement on the implementation of the budget and the state of the financial affairs of the municipality"*.

Financial reports are the primary means of communicating financial information to other interested parties. These reports are made accessible to the Executive for additional management and financial information that helps it carries out its planning, decision- making and control responsibilities, and

therefore has the ability to determine the form and content of such additional information to meet its own needs.

Governance is built around the responsibilities of accountability and oversight requiring a culture of transparency and regular reporting. More detailed financial reporting to the Council will facilitate an environment in which potential or real financial problems are reported in time and in an appropriate manner to allow the council to remedy the situation.

The financial situation of the municipality as at the end SEPTEMBER 2018 is indicated in the different schedules as listed below.

#### 5. EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual AUGUST 2018	Actual SEPTEMBER 2018	Trend Analysis
<i>Current Assets</i>			
Debtors Age Analysis on local Municipalities	R 48 216 247	R 49 222 561	Increase in previous month due to Emfuleni local municipality billing.
<u>Cash &amp; cash equivalents:</u>			
Cashbook balance (bank reconciliation) Primary	R 18 804 465	R 2 815 483	Decrease due to operational activity.
Cashbook balance (bank reconciliation) Licensing	R 38 215 203	R 21 841 865	
<i>Current Liabilities</i>			
Creditors Age Analysis	R 125 986 864	R 118 716 464	Decrease in current liabilities due to decrease in trade creditors, refundable deposits and monies payable to license authorities.
<i>Cash Flow</i>			
Cash flow closing balance	R 57 058 793	R 24 696 473	Operational activities.
Cost Coverage indicator	1.78	0.77	Decrease due to operational activities.
<u>Grants received in September 2018:</u>			
Equitable share	R 0	R 0	First tranche of the Equitable Share of R108 121 000 was received in July 2018.
FMG	R 0	R 0	Financial Management Grant received R 1 250 000 to be utilized for Financial Management Interns and Financial Capacity Building.

Item of Financial Position/ Performance	Actual AUGUST 2018	Actual SEPTEMBER 2018	Trend Analysis
EPWP	R 250 000	R 0	First tranche of EPWP received in August 2018.
RTSG	R 1 705 000	R 0	First tranche of RTSG received in August 2018.
HIV/AIDS	R 4 972 800	R 0	First tranche of HIV/AIDS received in August 2018.
Boipatong Monument Grant	R 0	R 0	Operational of Boipatong Monument Grant
Milling Plant	R 0	R	Awaiting approval for roll over request of R 2 378 500 from Provincial Treasury.
<u>Grants spent in September 2018:</u>			
FMG	R 60 908	R 51 056	Financial Management Interns Stipend and other expenditure incurred for September R51 056.
EPWP	R 0	R 80 963	Expenditure incurred for EPWP grants programs managed by SPED for the month of September.
RTSG	R 584 640	R 209 496	R 209 496 expenditure incurred for Rural Roads Projects for the month of September.
HIV/AIDS	R 0	R 185 985	Expenditure incurred for the Month of September on HIV/Aids Grants.
Milling Plant	R 0	R 0	Awaiting approval for roll over request of R 2 378 500 from Provincial Treasury.
Boipatong Monument Grant	R 185 343	R 184 261	Employee related cost on Boipatong Monument Grant
<i>Financial Performance</i>			
Operating Revenue for Month	R 15 738 599	R 9 464 259	Received to date 36%(benchmark 25%).

Item of Financial Position/ Performance	Actual AUGUST 2018	Actual SEPTEMBER 2018	Trend Analysis
Operating Expenditure for Month	R 31 161 235	R 22 721 869	Spent to date 24% (bench mark 25%).
Capital Expenditure for Month	R 108 540	R 388 548	17% of total Capex budget spent to date (benchmark 25%)
<i>MFMA Compliance</i>			
Monthly reports	MFMA 71,66	MFMA 71,66	Submit monthly reports on budget implementation and employee costs.
Budget	MFMA 75(1) MFMA 53 MFMA 71 MFMA 66 MFMA 21 (1)(b)	MFMA 71  MFMA 54(1)	Submit monthly report on the budget  Review implementation of budget and service delivery and budget implementation plan

## 6. DISCUSSIONS

The discussions below are broadly categorized under items of financial position (balance sheet), items of financial performance (income statement) and cash flow, as well as other information of key importance such as Asset Management and MFMA Compliance.

### 6.1 Financial Position

The balance sheet of Council is broadly distinguished into "Assets" (what Council owns) and "Liabilities" (what Council owes) as per Generally Accepted Accounting Principles (GRAP). The difference between assets and liabilities is referred to as the "Net Assets."

The net assets of Council are primarily composed of reserves that Council has built up over the years. The nature of these reserves can be either ring-fenced for specific use only (non-distributable reserves), or redistributable for other use as determined by Council. It must be noted that these reserves are non-cash items and Council's cash held as investments do not match these reserves.

#### a) Current Assets

*Debtors Management and Credit Control Status for the month ending September 2018.*

The debtor's book balance of the municipality as attached in annexure A is R 49 222 561

The major debtors were:

- a. R 42,039,909 is due from Emfuleni Local Municipality for IT and ad-hoc services whereby R 28 125 686 is current, R 1 118 048 is over 30 days, 969 856 is over 60 days and R 941 572 is over 90 days and R 10 884 747 is over 120 days.

- b. Recoverable fruitless and wasteful expenditure R 9 360
- c. Returned to drawer cheques R 176 134
- d. Sundry Debtors R 6 997 158

Bank reconciliation

Annexure "C1 – 4" indicate the bank reconciliations prepared for the month of SEPTEMBER 2018 with the detail on the bank and cash book balances.

The Council has four operating bank accounts Account to be reported on namely:

- Two Primary bank accounts, and
- Two License bank accounts

Council is operating four primary accounts. Bank reconciliations are completed monthly within three working days after the end of each month.

The cashbook shows a favorable balance of R 24 657 348 as at the end of SEPTEMBER 2018.

The remaining cash balance must meet operational requirements for SEPTEMBER 2018 until receipt of the next equitable tranche due in November 2018

b) Current Liabilities

*Creditors' Age Analysis*

Annexure "D" represents the creditors' age analysis of R 118 716 464 payable to the Trade creditors in September 2018. An amount of R 95 912 889 is due payable to the licensing authority, R 7 842 365 as sundry creditors, R14 750 022 held on the dispute over Licensing and R 211 188 is on Refundable deposit.

c) Net Assets

*Reserves*

The balance sheet of Council is broadly distinguished into "Assets" (what Council owns) and "Liabilities" (what Council owes) as per Generally Accepted Accounting Principles (GRAP). The difference between assets and liabilities is referred to as the "Net Assets."

The net assets of Council are primarily composed of reserves that Council has built up over the years. The nature of these reserves is that they are ring-fenced for specific use only (non-distributable reserves), as determined by accounting standards. It must be noted that reserves comprise of mostly accounting book-entries and are non-cash transactions. This implies that the reserves on the face of the financial statements do not equate to cash held as investments by Council.

As required by prescribed accounting standards (GRAP 01), only provisions are shown separately on the face of the Statement of Financial Position. All reserves are "ring-fenced" as internal reserves within the Accumulated Surplus. Ring-fenced reserves are as follows:

- Assets fair value reserve
- Government grant reserve (GGR)

These reserves not supported by cash but are only used for book entry purposes for the phasing in of increased depreciation charges as a result of the full implementation of GRAP 17.

According to GRAP standards, the GGR is created when the municipality receives government grants for the acquisition and/or construction of fixed assets. Once the conditions of the capital grant have been met, the funds are recognized as "revenue" (non-cash) on the statement of financial performance. This "revenue" recognized is then in turn transferred out of the Accumulated Surplus to the GGR on the Statement of Net Assets in order to offset the future depreciation of the property, plant and equipment in question. Hence, the reserve is committed solely for this purpose and cannot be utilized for any other

purpose. This is referred to as the non-distributable portion of the reserves. Council must note that these are all non-cash entries.

The purpose of these reserves are to promote community equity and facilitate budgetary control by ensuring that sufficient funds (non-cash) are set aside on the accounting books to offset the future depreciation charges (non-cash) that will be incurred over the estimated useful life of the item of property, plant and equipment financed from government grants, public contributions or a (non-cash) surplus arising from the revaluation of property, plant and equipment.

Council must note that these are all non-cash entries performed only for compliance purposes in line with accounting standards prescribed by the Accounting Standards Board (ASB) and enforced by the Office of the Accountant-General.

d) Cash Flow

See Annexures “B,” C1- 4,” E”

Essentially, the cash flow statement is concerned with the flow of physical cash in and cash out of the municipality as we collect monies owed by debtors and pay out monies due to creditors.

Annexure “E” is Council’s cash flow statement which indicates the movements on the main bank accounts. The incoming receipts amount R9 464 258. Outgoing payments were made to the amount of R 32 186 127 Taking into account the opening cashbook balance, this left a favorable closing balance of R 24 696 473 at the end of the SEPTEMBER 2018 period, which shows a Decrease margin from last month’s closing balance.

Cost coverage indicator

$$\text{The cost coverage formula} = \frac{(\text{All available cash at the end of the period in the cashbook}) + (\text{investments at hand less Provisions})}{\text{Monthly fixed operating expenditure}}$$

$$\begin{aligned} \text{The cost coverage formula} &= \frac{(R\ 24\ 696\ 473) + R0}{R\ 32\ 184\ 253} \\ &= \underline{0.77\ \text{TIMES}} \end{aligned}$$

The cost coverage of the municipality indicates that Council is not capable of covering more than 0.77 monthly fixed operating expenditure and shows that the investments and cash flow of the municipality are unfavorable. Our cash formula on hand must cover at least until November 2018-19 as the next equitable share allocation is in November 2018. The formula does not take into consideration the contingent assets and liabilities whereby if taken into consideration this will indicate that the municipality is having a liquidity problem as identified in the AG reports of 2016/17 and realized in 2017/18 draft financial statement.

*Grant allocations and expenditure:*

Annexure “F” represents the Grants allocation and their expenditure.

Equitable Share:

First tranche of Equitable Share for 2018/19 amounting to R108 121 000 was received in the month of July 2018.

#### Finance Management Grant (FMG):

R1 250 000 received in the month of July 2018 R51 056 was incurred as expenses in the month of September 2018.

The FMG Interns were involved in the following activities during the month of September 2018 as part of their training rotation plan:

- One intern in income and budget
- One intern in Expenditure.
- One intern in Internal Audit
- Two interns in Supply Chain Management

The interns will be attending CPMD training as part of the internship agreement with National Treasury.

#### RTSG:

Grants received in August 2018 R 1 705 000.

#### HIV/Aids:

Grants received in August R 4 972 800, expenses incurred in September R 2018.

#### EPWP Projects:

Grants received in August R 250 000 expenses incurred for the month of September R 80 963.

#### Grant payments to Local Municipalities:

No grant payments were scheduled for local municipalities for the month of September 2018.

### 6.2 Financial Performance

Financial performance shows the results of operations for the given period. It lists sources of revenue and expenses. The statement measures the performance of Council for a given period of time. Surplus or deficit is used to measure financial performance and directly related to the measurement of revenue and expenditure for the reporting period.

Operating expenses are incurred in the course of conducting normal Council business. They are classified by function such as employee related costs, general expenses, finance charges and contributions to provisions.

*“See Annexures G, H & I”*

#### a) Actual revenue and expenditure

Annexure “G” represents the organizational Operating Revenue and Expenditure which illustrates that R 9 464 259 was generated in revenue. R 22 721 869 was spent during the month of September 2018 on the operating accounts.

Annexure “H” represents the Capital expenditure and Revenue sources. Capital expenditure amounted to Rand it was funded internally for various moveable assets such as furniture & equipment, computers & printers.

Details on performance progress on capital projects are outlined as per *“Annexure I.”*

#### b) Pro-Rata Operating Comparative Analysis (Budget vs. Actual by Cluster)

The Total Performance of the municipality as per our findings and reviews are as follows:

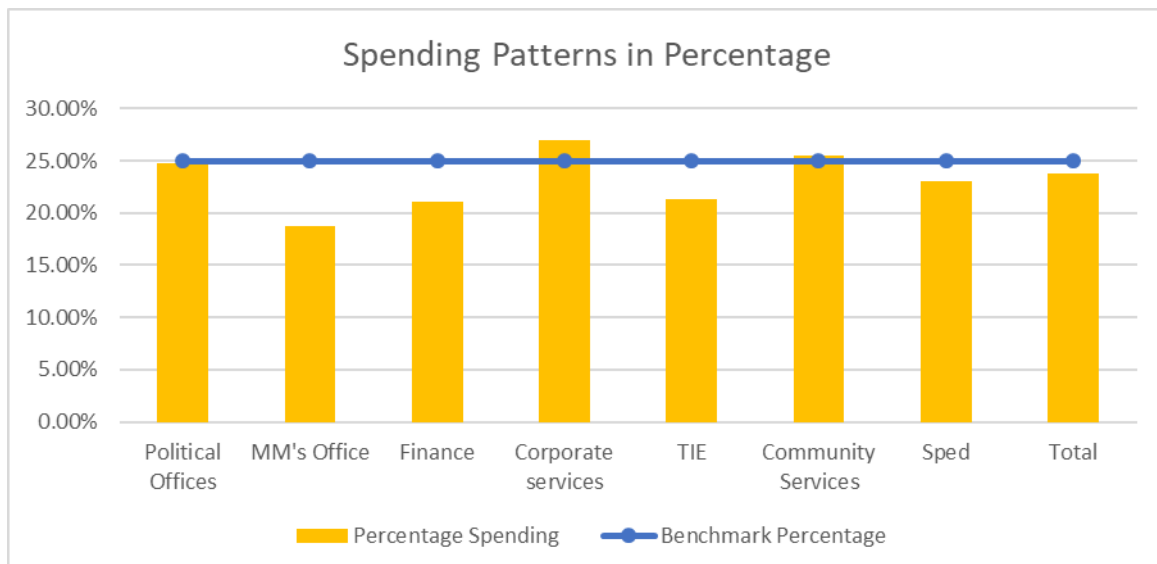
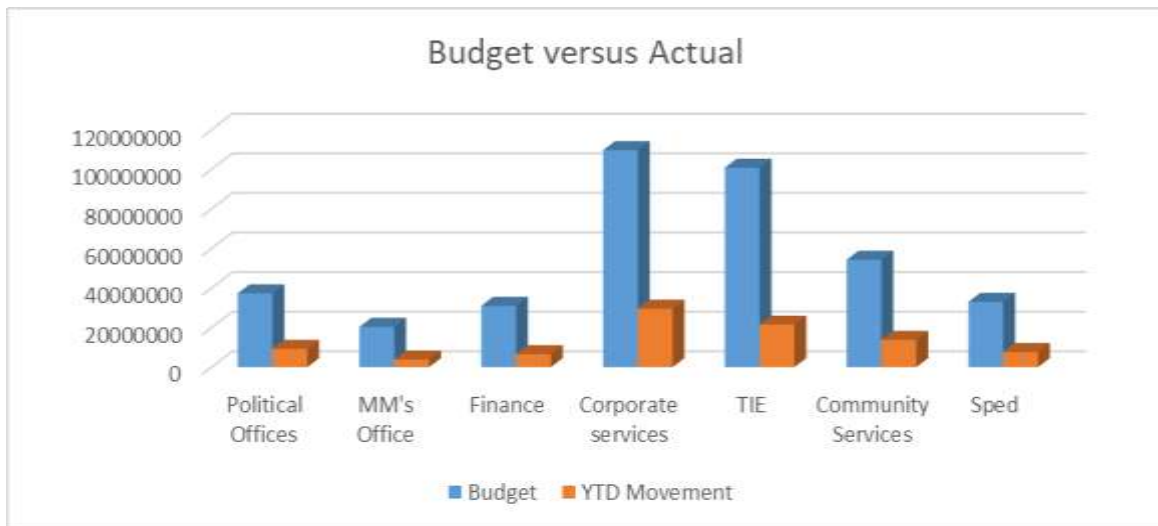
As the month of SEPTEMBER 2018 signals the third month of the first quarter of the 2018/19 financial year, spending trends ought to be around 25%. "Other Income" consists of income items such as airfield fuel & fees, IT charges to LMs, profit on sale of assets; skills levy income, tender income as well as recoveries from telephone costs and commission on salaries.

The monthly performance indicates that total operating expenditure rate is standing at 24% and revenue is at 36% of the pro rata budget.

Intervention measures:

The Supply Chain Management Unit together with Financial Management both serve on the Contract Management Committee chaired by Corporate Services: Legal & Support to monitor contractual obligations and performance management of service providers.

Cost Containment measures are still in place to cut down on expenditure. Refer to the graphs below





c) Pro-Rata Capital Comparative Analysis (Budget vs. Actual)

The total Capital Budget approved for 2018/2019 amounts to R 3 600 000 is funded internally from reserves (accumulated surplus) as clusters failed to gain external funds for those projects when rolling out Council's capital intensity programme and drive to assist local municipalities.

Details on performance progress on all capital projects are outlined as per "Annexure I."

The spending analysis on own fixed assets as at the end of the month of September is shown in the table below:-

Description	Original Budget	Adjustment Budget	Current Month	Committed	YTD Movement	Available	%Spent
Furniture and Equipment	250 000	0	7 198	0	33 215	216 779	14%
Computers and Printers	650 000	0	264 143	0	335 873	314 127	52%
Standard Chart of Account Implementation	1 500 000	0	26 042	0	42 460	1 457 540	2.83%
Networks	1 200 000	0	91 165	0	190 290	1 009 709	16%
Subtotal	3 600 000	0	388 548	0	601 838	2 998 155	17%

The indication for capital projects is that all expenses is funded internally for the various components of assets as per the above table.

Asset Management

A scheduled year-end asset stock take took place and during this stock-take the physical condition and location of assets were verified in order to ensure completeness and accuracy of the fixed asset register. Currently, asset verification stock take takes place twice a year.

No other matters of material significance to report for Asset Management.

6.3 Monitoring of Compliance

*Policy Governance of Municipal Finance and MFMA Compliance*

As part of improving Sedibeng District Municipality's MFMA reporting module, the project plan report indicates our compliance to the requirements as outlined per the MFMA for the financial year 1 July 2018 to 30 June 2019, which has been divided into timeframes of reporting: Annually, Quarterly, Monthly & Ad-hoc.

Finance is pleased to inform the Committee that our obligations in terms of compiling the annual financial statements within the prescripts of GRAP and the requirements of the MFMA have been duly met on time.

It must be noted that the individual Clusters are responsible to action projects and programmes based on their planned OPEX and CAPEX budgets as aligned with their overall SDBIPs. Finance facilitates and supports the Clusters in an overview capacity to ensure that required targets are met. However, without full cooperation of the Clusters in providing substantiation to the comparative reports, Finance cannot completely assure the quality and accuracy of the information disclosed in this report.

See Attached Annexures reflecting detail information:

- “A” – Debtors Age Analysis
- “B” – Investment Schedule
- “C” – Bank Reconciliations
- “D” – Creditors Age Analysis
- “E” – Cash Flow Statement
- “F” – Grants Allocation and Expenditure
- “G” – Operating Revenue and Expenditure
- “H” – Capital Expenditure and Revenue Source
- “I” – Capital Projects Progress
- “J” – MFMA Compliance

7. COMMENTS BY CORPORATE SERVICES

No comments received from Corporate Services.

8. COMMENTS BY COMMUNITY SERVICES

No comments received from Community Services.

9. COMMENTS BY STRATEGIC PLANNING AND ECONOMIC DEVELOPMENT

No comments received from Strategic Planning and Economic Development.

10. COMMENTS BY TRANSPORT, INFRASTRUCTURE AND ENVIRONMENT

No comments received from Transport, Infrastructure and Environment.

**RECOMMENDED:**

1. THAT the financial management report as at the end **September 2018** as per attach annexure “A” to “J” be considered as prescribed by section 54(1) of the Local Government: Municipal Finance Management Act, 56 of 2003.

\_\_\_\_\_  
MS. KAJAL WIESE  
ACTING CHIEF FINANCIAL OFFICER

\_\_\_\_\_  
CLLR. P B TSOTETSI  
MMC FOR FINANCE

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date