

ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2006

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Part 4

Annual Financial Statements

REPORT BY THE
ACCOUNTING OFFICER
for the year ended 31 March 2006

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Report by the Accounting Officer to the Executive Authority and the Members of the Provincial Parliament of the Western Cape

1. General review of the state of financial affairs

The Department's overriding objective is to promote the creation of integrated and sustainable human settlements within a framework of co-operative governance.

To achieve this objective, the Department is finalising a Sustainable Human Settlements Strategy for the Province. The Strategy aims to take account of the realities in the Western Cape and to mainstream the imperatives of the Breaking New Ground Strategy of national government. The Human Settlements Strategy will inform the manner in which housing and basic service delivery are rolled out in the Province, and three pilot projects will showcase this new approach.

One of the housing projects to be implemented is the N2 Gateway Project. The project has provided valuable experiences in implementing the Breaking New Ground policy, such as the pioneering of Temporary Relocation Areas (TRAs). TRAs assist vulnerable communities living in areas of stress, and their establishment has influenced the development of the emergency housing programme in the country. The Department will place emphasis on TRAs in the coming year, as they address the need for dignified living conditions for people living in informal settlements.

Shelter and basic services go hand in hand. National Government has recently placed renewed emphasis on the need to eradicate the "bucket system" of sanitation in South Africa. For the Department, this means the provision of basic sanitation to all residents of the Western Cape. The Department has already conducted surveys of the sanitation backlog, and has developed a plan to progressively realise the right to basic sanitation. This plan will be rolled out together with relevant stakeholders, such as the Department of Water Affairs and Forestry (DWA) and the Development Bank of South Africa (DBSA).

We have seen many natural disasters affect our Province in the past year. To provide an integrated response to such events, the Department in partnership with the Departments of Health and Community Safety launched the Provincial Emergency Management Centre on 15th December 2005 at the Tygerberg Hospital. The Department will work closely with existing district

structures to assist with the establishment of district emergency management centres. A fast and reliable wide area network will connect all the emergency management centres and the municipalities. The Department will also introduce learnerships in the area of disaster management to build sustainability into the mitigation and management of disasters, and will also focus on the prevention of disasters through the implementation of awareness training in vulnerable communities.

All of these functions – provision of shelter and services, and response to disasters – are provided primarily through local government. A key mandate of the Department is to support municipalities in carrying out these functions. The Department has completed a capacity assessment of all municipalities, which has resulted in a comprehensive municipal capacity-building strategy. Among the interventions to be implemented are councillor training and support (in partnership with the South African Local Government Association (SALGA)), provision of centralised resources, such as standard bylaws, guidelines, and toolkits, benchmarking and best practices, as well as mentoring and coaching programmes.

As part of its commitment to building capacity and deepening community participation, the Department has rolled out a comprehensive programme of training and support to create effectively functioning ward committees. The next phase of this programme is to ensure that ward participation in municipal Integrated Development Plan (IDP) processes is strengthened to encourage community ownership of development plans.

Another initiative that aims to strengthen the links between government and the public is the Community Development Worker (CDW) Programme. Of the 400 CDWs recruited for learnership in February 2005, 371 were awarded a National Qualification in Community Development. As of 1 April 2006, 200 CDWs will have been appointed to permanent positions in the Department and will be based in municipalities. The Department will work to achieve closer integration and utilisation of CDWs by other government departments and municipalities.

A highlight of the year was the successful engagement between Province and municipalities with respect to planning and budgeting. The first “Local Government MTEC” was held in October 2005, and was followed by additional engagements in November 2005 and January 2006. For the first time, provincial and local government plans and budgets are beginning to speak to each other. These

intergovernmental processes will be strengthened and deepened in the coming year.

All of these activities will be supported by a Department that is in a continuous process of review and improvement. The Department will rationalise and strengthen its current Monitoring and Evaluation (M&E) systems through the formation of a single co-ordinated system for information collection and management. The system will generate recommendations for policy and implementation reforms. With a fully capacitated Department, we will be in a strong position to deliver on the objectives outlined in this document.

General view on spending for the financial year

Final appropriation	R'000
Total	811 808
Administration	51 286
Housing	665 981
Local government	75 668
Development and planning	18 808
Special functions	65
Underspending	
Total	21 641
Administration	148
Housing	11 661
Local government	7 410
Development and planning	2 422
Special functions	-

All programmes and sub-programmes remained within their approved budgets. Application was made to the Provincial Treasury for the roll-over of all unspent conditional grants, committed capital expenditure, and transfer payments. The reasons for the underspending are discussed under 'Notes to the appropriation statement'.

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REPORT BY THE
ACCOUNTING OFFICER
for the year ended 31 March 2006

2. Services rendered by the Department

2.1 Tariff policy

Parking fees:

All tariffs are revised annually by the Department of Transport and Public Works and approved by the Provincial Treasury in terms of National Treasury Regulation 7.3.1. These tariffs are applicable to all officials, consultants, or persons who utilise official parking bays. These bays are also allocated by the said department.

2.2 Free Services

No free services were rendered during the year under review.

3. Capacity constraints

Another strategic goal of the Department as stated in the Annual Performance Plan for 2006/07 is to establish a well-functioning, transformed department capacitated to deliver:

The former Department of Housing experienced capacity constraints when faced with the changing housing delivery environment and policies implemented over previous years. The Provincial Cabinet approved a new organisational structure in October 2004 to alleviate the capacity constraints. The former Department of Local Government was also restructured and the Departments started the implementation of these new structures in January 2005 by appointing Senior Management. The two departments amalgamated on 1 April 2005, and the Provincial Cabinet approved the amalgamated establishment on 6 April 2005. The matching and placing process was finalised in August 2005 and the recruitment of staff started in earnest.

Strategy

A department that is adequately staffed, skilled, and motivated to deliver on its mandate. This includes:

- Continuous adjustment to the organisation of the Department to meet its mandate
- Developing a team-based approach to projects
- Applying recruitment, retention, selection, training, and career development processes that are in line with legislative imperatives and departmental objectives
- Becoming a learning organisation with strategic planning and management competence.

Key focus areas

- Improved work flow processes
- Team work based on professionalism, willingness, tolerance, and commitment
- Information, architecture, and systems
- Human Resource Development plans focussed on career development and service delivery
- Performance monitoring
- Performance management.

Targetted outputs over the medium term

- All posts filled with competent and motivated staff
- A departmental performance monitoring system in place
- A performance management system implemented at all levels of the organisation
- Skills development strategy in place and being operationalised
- Social capital strategy implemented to effect changes to the organisational culture within the Department
- An inter-directorate, team-based approach to projects
- The culture of the Department transformed in line with Batho Pele values and principles
- PFMA and DORA compliance
- 100% of budget efficiently and effectively spent each year
- Work flow processes reviewed and improved to include service level agreements within the Department.

4. Utilisation of donor funds

No donor funds were received or utilised by the Department.

5. Trading entities and public entities

The Western Cape Housing Development Board (WCHDB) was abolished in October 2005. The WCHDB did not operate on its own and the members were paid per meeting attended. The day-to-day administration of the Board was performed by the Department.

The Western Cape Housing Development Fund (WCHDF) was dormant during the 2005/06 financial year. All expenditure relating to assets was expensed under Programme 2: Housing. The income derived from the WCHDB assets and debtors was paid into the Provincial Revenue Fund.

The Accounting Authority is the Head of Department responsible for housing in the Province and the Chief Financial Officer of the Department is also the Chief Financial Officer of the Board.

The performance of the Board and the financial statements of the Western Cape Housing Development Fund will be tabled in a separate report to the Provincial Parliament.

6. Organisations to whom transfer payments have been made

All transfer payments and the purposes for the payments made are reported in Annexure 1B – 1F of the Notes to the Annual Financial Statements.

Accountability arrangements in place over each transfer payment made are stipulated in the individual agreements to the entities receiving the transfer payments.

7. Public private partnerships (PPPs)

The Department did not enter into any PPPs during the year under review.

8. Corporate governance arrangements

The Internal Audit Consortium, appointed by the Provincial Treasury to perform the internal audit function in the Province, developed a high-level risk profile for the Department. This, together with the risk profile developed for the Department of Local Government, will be the platform and foundation to be used by the Department of Local Government and Housing in identifying, managing, and controlling the business risks of the Department. A new Fraud Prevention Plan will also be compiled for the new Department.

The Report of the Audit Committee is incorporated as Part 3 in the Annual Report of the Department.

9. Discontinued activities/activities to be discontinued

No activities were discontinued or are to be discontinued.

10. New/proposed activities

None

11. Asset management

The Supply Chain Management (SCM) unit within the Department of Local Government and Housing is currently in the process of assigning unique assets numbers to its assets for verification, reconciliation, and location purposes. Stores have been reorganised accordingly and recorded on the LOGIS System to facilitate speedy disposal of redundant and obsolete items. The re-engineering of SCM/Asset Management is done in collaboration with Provincial Treasury.

12. Inventories

Two types of inventory are generated by LOGIS. One is an inventory of store items (RR26 LOGIS report) and the other is an inventory of furniture and equipment (RR025 LOGIS report). The value of stationery as at 31 March 2006 amounted to ±R576 000. The value of the inventories was valued at weighted average price. Inventories are issued on first-in-first-out (FIFO) basis.

13. Events after the reporting date

No conditions/events, either favorable or unfavorable, existed at year end. No events occurred between 31 March 2006 and the date of approval of the financial statements that necessitated adjusting the financial statements as at 31 March 2006.

14. Performance information

The Department identified its shortcoming on reliable/verifiable performance information. To address this, the Department identified the following strategic goal as stated in the Annual Performance Plan for 2006/07:

A comprehensive information and knowledge management system supported by a strategic and co-ordinated research agenda as a basis for planning, action, monitoring, and evaluation.

Strategy

A hub of information will be created in support of the Department's work. This hub will include management of all existing information, identification of information needs, generation of new information required, analysis of information and policies provided by provincial and national government, and support for provincial and local planning and strategy processes, in support of developmental local government and sustainable human settlements.

Key focus areas

- A comprehensive information and knowledge management system for the Department
- Policy analysis and new policy development
- A co-ordinated and focussed research programme in support of the Department and the strategies of iKapa Elihlumayo
- Effective, multi-year, integrated, quality planning of provincial, local and national government, supported by adequate resources and capacity and aligned with provincial strategies
- People effectively trained to maximise these systems.

Targetted outputs over the medium term

- An operational knowledge management system servicing the Department and iKapa Elihlumayo strategies
- Departmental analysis of all key policies completed and accessible to all provincial staff
- Participation of the Province, municipalities, and social partners in the Western Cape in all key policy dialogues
- Provincial policies to support developmental local government and sustainable human settlements developed
- A strategic research agenda defined and research projects initiated and linked to provincial priorities
- All plans aligned to the new policy imperatives and the Provincial Spatial Development Framework
- IDPs that are responsive to local community needs and aligned to national, provincial, and local priorities.

15. Scopa resolutions

Auditor-General report emphasis of matters on 2004/05 annual financial statements

No	Emphasis of matters	Medium strategy to address
1.	Outstanding municipal debt The Department had a contingent liability in respect of municipal rates in arrears. Due to the fact that the Department was still in the process of reconciling and reviewing these accounts, the total effect of the liability could not be quantified.	The Department is reconciling the municipal accounts in co-operation with the respective municipalities.
2.	Asset management Processes and procedures to ensure the safeguarding and maintenance of assets as well as effective and efficient utilisation of assets could not be confirmed because a formal asset management policy did not exist. Furthermore, a formal asset register that conforms to the guidelines issued by National Treasury was not maintained as details, such as acquisition dates and disposal information, were not available on the LOGIS printout that was used by the Department as the asset register.	This is a national/provincial transversal problem. PT, NT and provincial departments are addressing this problem.
3.	Non-compliance with laws and regulations The following instances of non-compliance with the PFMA or National Treasury regulations were identified: (1) Invoices were found not to have been paid within 30 days of receipt because the Department did not have an adequate system for registering the date of receipt of invoices. (2) Paysheets to confirm existence of employees were not returned in a timely manner from the various paypoints.	Corrective measures were instituted by the CFO.

No	Emphasis of matters	Medium strategy to address
4.	Internal audit No internal audit work was performed in the Department during the financial year under review.	This Department is fully reliant on the centralised internal audit unit. The Department is part of the internal audit plan for 2005/06.
5.	Risk assessment and fraud prevention plan Although a risk assessment was performed by the internal auditors during the financial year under review, the fraud prevention plan adopted by the Department was still the generic document, which needs to be tailored to the specific needs of the Department.	Will be completed in 2005/06 in consultation with the Shared Internal Audit Consortium.
6.	Internal checking and control Various control weaknesses and deficiencies were highlighted and brought to the attention of the Accounting Officer by way of informal queries and a management letter, which included, inter alia, the following: <ul style="list-style-type: none"> • Measures to verify the completeness and accuracy of royalty income were inadequate; • Documentation in respect of subsidies was not readily available; • There was a lack of adequate controls in respect of awarding bids to companies owned by the same individual; and • Stock count procedures were inadequate. 	The Department will implement the corrective steps recommended by the auditors.
7.	Previous audit report With reference to page 37, paragraph 4.1 of the 2003/04 annual report, it was reported that irregular expenditure amounting to R690'000 relating to the appointment of consultants had occurred. Since current legislation does not allow for the condonation of such expenditure, the Department is currently awaiting an adjustment to the relevant legislation before this matter can be finalised.	PFMA not yet amended to make provision for condonation of irregular expenditure.

Part 4 Annual Financial Statements

REPORT BY THE
ACCOUNTING OFFICER
for the year ended 31 March 2006

Approval

The Annual Financial Statements set out on pages 51 to 94 have been approved by the Accounting Officer.



S MAJIET
ACCOUNTING OFFICER
DATE:

REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL PARLIAMENT OF THE WESTERN CAPE ON THE FINANCIAL STATEMENTS OF THE DEPARTMENT OF LOCAL GOVERNMENT AND HOUSING (VOTE 8) FOR THE YEAR ENDED 31 MARCH 2006

Part 4

Annual Financial Statements

REPORT OF THE
AUDITOR GENERAL

for the year ended 31 March 2006

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1. AUDIT ASSIGNMENT

The financial statements as set out on pages 51 to 94, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). The fixed asset opening balance has not been audited because of the timing of guidance from National Treasury to the departments relating to the treatment, valuation and disclosure of fixed assets. These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury, as described in note 1.1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Local Government and Housing at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by the National Treasury of South Africa, as described in note 1.1 to the financial statements, and in the manner required by Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

5. EMPHASIS OF MATTER

Without qualifying the audit opinion, attention is drawn to the following matters:

5.1 Asset management

The following shortcomings relating to asset management were noted and brought to the attention of the accounting officer:

- Assets amounting to R5 356 000 were procured during the 2005-06 financial year that were not recorded on the Logistical Information System (LOGIS) asset register at 31 March 2006, because unique asset numbers have not been allocated and added to the asset register when the assets were received.
- All assets procured during previous years via the Basic Accounting System (BAS), since the implementation of LOGIS during February 2001, have not been captured on the fixed asset register.
- A complete asset count was not performed by the department as at 31 March 2006 and compared with the asset register to ensure the completeness of the asset register and to ensure that all assets existed.
- Due to a lack of unique asset numbers affixed to all movable assets, the selected items could not be followed through from the various locations to the asset register.
- Several assets identified to be redundant could not be traced to the asset register to determine whether all redundant furniture disposed off during the year was removed from the

department's asset register. The RSA numbers as indicated on the list could not be followed through to the asset register.

5.2 Non-compliance with Treasury Regulations

In terms of the PFMA and Treasury Regulation 8.2.3, unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days after receipt of an invoice. During the year under review various invoices were identified that have not been paid within the prescribed 30-day period. Due to unreliable reports produced by BAS, an age analysis as well as the total amount outstanding for longer than 30 days could not be determined.

5.3 N2 Gateway project

The department incurred expenditure amounting to R91 913 076 relating to the N2 Gateway project during the 2005-06 financial year, while the "conceptual business plan" has not been finalised in terms of a memorandum of understanding between the National Minister of Housing, the Western Cape MEC for Local Government and Housing and the Mayor of the City of Cape Town. Included in the above amount was expenditure of R6,5 million that was reimbursed to the City of Cape Town that related to the redesign and planning cost of the Boystown subproject. This resulted from the fact that after the detailed planning and design of the project was completed, the social housing programme was subsequently approved and the project had to be redesigned.

At the time of finalising this report the department has not performed an exercise to determine whether the above expenditure of R6,5 million should be regarded as fruitless and wasteful expenditure. The amount has therefore not been accounted and disclosed accordingly in the financial statements.

5.4 Housing subsidies: discount benefit scheme and phasing-out programme

Various shortcomings in the controls regarding the administration of housing subsidies relating to the discount benefit scheme and the phasing-out programme were identified during the audit. The control over the relevant supporting subsidy files as well as the completeness of the information on the files was a concern.

5.5 Performance information

The following deficiencies relating to the performance information as reported in the draft of part 2 of the department's annual report for 2005-06 were brought to the attention of the accounting officer in a management letter:

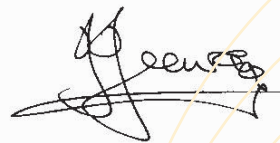
- The planned outputs/targets for 2005-06 as reported differed in comparison with the approved budget.
- Deviations were identified between planned and actual outputs for 2005-06 that were not explained.
- Actual outputs relating to the previous financial year (2004-05) were not indicated in certain cases.
- Actual outputs versus the planned outputs/targets for 2005-06 were not reported on in various cases.

5.6 Performance audit relating to the approval and allocation of housing subsidies

A performance audit relating to the approval and allocation of housing subsidies at the former Department of Housing in the Western Cape for the period January 1995 to March 2004 was conducted and the findings were brought to the attention of the accounting officer during June 2005. A separate report in this regard will be issued.

6. APPRECIATION

The assistance rendered by the staff of the Department of Local Government and Housing during the audit is sincerely



I Jeewa for Auditor-General
Cape Town
31 July 2006



A U D I T O R - G E N E R A L

ACCOUNTING POLICIES for the year ended 31 March 2006

The Financial Statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the Financial Statements and to comply with the statutory requirements of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), and the Treasury Regulations issued in terms of the Act and the Division of Revenue Act, Act 1 of 2005.

1. Presentation of the Financial Statements

1.1 Basis of preparation

The Financial Statements have been prepared on a modified cash basis of accounting, except where stated otherwise. The modified cash basis constitutes the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid or when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

1.2 Presentation currency

All amounts have been presented in the currency of the South African Rand (R) which is also the functional currency of the department.

1.3 Rounding

Unless otherwise stated all financial figures have been rounded to the nearest one thousand Rand (R'000).

1.4 Comparative figures

Prior period comparative information has been presented in the current year's financial statements. Where necessary figures included in the prior period financial statements have been reclassified to ensure that the format in which the information is presented is consistent with the format of the current year's financial statements.

A comparison between actual and budgeted amounts per major classification of expenditure is included in the appropriation statement.

2. Revenue

2.1 Appropriated funds

Appropriated funds are recognised in the financial records on the date the appropriation becomes effective. Adjustments to the appropriated funds made in terms of the adjustments budget process are recognised in the financial records on the date the adjustments become effective.

Total appropriated funds are presented in the statement of financial performance.

Unexpended appropriated funds are surrendered to the Provincial Revenue Fund, unless approval has been given by the Provincial Treasury to rollover the funds to the subsequent financial year. Amounts owing to the Provincial Revenue Fund at the end of the financial year are recognised in the statement of financial position.

2.2 Departmental revenue

All departmental revenue is paid into the Provincial Revenue Fund when received, unless otherwise stated. Amounts owing to the Provincial Revenue Fund at the end of the financial year are recognised in the statement of financial position.

2.2.1 Sales of goods and services other than capital assets

The proceeds received from the sale of goods and/or the provision of services is recognised in the statement of financial performance when the cash is received.

2.2.2 Interest, dividends and rent on land

Interest, dividends and rent on land is recognised in the statement of financial performance when the cash is received.

2.2.3 Sale of capital assets

The proceeds received on sale of capital assets are recognised in the statement of financial performance when the cash is received.

2.2.4 Financial transactions in assets and liabilities

Repayments of loans and advances previously extended to employees and public corporations for policy purposes are recognised as revenue in the statement of financial performance on receipt of the funds. Amounts receivable at the reporting date are disclosed in the disclosure notes to the annual financial statements.

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Annual Financial Statements

ACCOUNTING POLICIES
for the year ended 31 March 2006

Cheques issued in previous accounting periods that expire before being banked are recognised as revenue in the statement of financial performance when the cheque becomes stale. When the cheque is reissued the payment is made from Revenue.

2.2.5 Gifts, donations and sponsorships (transfers received)

All cash gifts, donations and sponsorships are paid into the Provincial Revenue Fund and recorded as revenue in the statement of financial performance when received. Amounts receivable at the reporting date are disclosed in the disclosure notes to the financial statements.

All in-kind gifts, donations and sponsorships are disclosed at fair value in the annexures to the financial statements.

3. Expenditure

3.1 Compensation of employees

Salaries and wages comprise payments to employees. Salaries and wages are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). Capitalised compensation forms part of the expenditure for capital assets in the statement of financial performance.

All other payments are classified as current expense.

Social contributions include the entities' contribution to social insurance schemes paid on behalf of the employee. Social contributions are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system.

3.1.1 Short-term employee benefits

Short term employee benefits comprise of leave entitlements (capped leave), thirteenth cheques and performance bonuses. The cost of short-term employee benefits is expensed as salaries and wages in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

Short-term employee benefits that give rise to a present legal or constructive obligation are disclosed in the notes to the financial statements. These amounts are not recognised in the statement of financial performance.

3.1.2 Long-term employee benefits

3.1.2.1 Termination benefits

Termination benefits such as severance packages are recognised as an expense in the statement of financial performance as a transfer when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

3.1.2.2 Post employment retirement benefits

The department provides retirement benefits (pension benefits) for certain of its employees through a defined benefit plan for government employees. These benefits are funded by both employer and employee contributions. Employer contributions to the fund are expensed when the final authorisation for payment to the fund is effected on the system (by no later than 31 March of each year). No provision is made for retirement benefits in the financial statements of the department. Any potential liabilities are disclosed in the financial statements of the National/Provincial Revenue Fund and not in the financial statements of the employer department.

The department provides medical benefits for certain of its employees. Employer contributions to the medical funds are expensed when the final authorisation for payment to the fund is effected on the system (by no later than 31 March of each year).

3.2 Goods and services

Payments made for goods and/or services are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). The expense is classified as capital if the goods and services were used on a capital project.

3.3 Interest and rent on land

Interest and rental payments are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). This item excludes rental for the use of buildings or other fixed structures.

3.4 Financial transactions in assets and liabilities

Debts are written off when identified as irrecoverable. Debts written-off are limited to the amount of savings and/or underspending of appropriated funds. The write off occurs at year-end or when funds are available. No provision is made for irrecoverable amounts but amounts are disclosed as a disclosure note.

All other losses are recognised when authorisation has been granted for the recognition thereof.

3.5 Unauthorised expenditure

When discovered unauthorised expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

Unauthorised expenditure approved with funding is recognised in the statement of financial performance when the unauthorised expenditure is approved and the related funds are received. Where the amount is approved without funding it is recognised as expenditure, subject to availability of savings, in the statement of financial performance on the date of approval.

3.6 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

3.7 Irregular expenditure

Irregular expenditure is recognised as expenditure in the statement of financial performance. If the expenditure is not condoned by the relevant authority it is treated as an asset until it is recovered or written off as irrecoverable.

3.8 Transfers and subsidies

Transfers and subsidies are recognised as an expense when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

3.9 Expenditure for capital assets

Payments made for capital assets are recognised as an expense in the statement of financial performance when the final

authorisation for payment is effected on the system (by no later than 31 March of each year).

4. Assets

4.1 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost.

For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held, other short-term highly liquid investments and bank overdrafts.

4.2 Prepayments and advances

Amounts prepaid or advanced are recognised in the statement of financial position when the payments are made.

4.3 Receivables

Receivables included in the statement of financial position arise from cash payments made that are recoverable from another party.

Revenue receivable not yet collected is included in the disclosure notes. Amounts that are potentially irrecoverable are included in the disclosure notes.

4.4 Asset Registers

Assets are recorded in an asset register, at cost, on receipt of the item. Cost of an asset is defined as the total cost of acquisition. Assets procured in previous financial periods, may be stated at fair value, where determinable, or R1, in instances where the original cost of acquisition or fair value cannot be established. No revaluation or impairment of assets is currently recognised in the asset register. Projects (of construction/development) running over more than one financial year relating to assets, are only brought into the asset register on completion of the project and at the total cost incurred over the duration of the project.

Annexures 3 and 4 of the disclosure notes, reflect the total movement in the asset register of assets with a cost equal to and exceeding R5 000 (therefore capital assets only) for the current financial year. The movement is reflected at the cost as recorded in the asset register and not the carrying value, as depreciation is not recognised in the financial statements under the modified

cash basis of accounting. The opening balance reflected on Annexures 3 and 4 will include items procured in prior accounting periods and the closing balance will represent the total cost of the register for capital assets on hand.

5. Liabilities

5.1 Payables

Recognised payables mainly comprise of amounts owing to other governmental entities. These payables are recognised at historical cost in the statement of financial position.

5.2 Lease commitments

Lease commitments represent amounts owing from the reporting date to the end of the lease contract. These commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

Operating and finance lease commitments are expensed when the payments are made. Assets acquired in terms of finance lease agreements are disclosed in the annexures to the financial statements.

5.3 Accruals

Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment has not been effected on the system.

Accruals are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

5.4 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department; or

A contingent liability is a present obligation that arises from past events but is not recognised because:

- It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

- The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are included in the disclosure notes.

5.5 Commitments

Commitments represent goods/services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

6. Net Assets

6.1 Recoverable revenue

Amounts are recognised as recoverable revenue when a payment made and recognised in a previous financial year becomes recoverable from a debtor.

7. Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the department.

Compensation paid to key management personnel including their family members where relevant, is included in the disclosure notes.