Report of the Auditor-General to Parliament on the National Economic Development and Labour Council

Report on the financial statements

Introduction

1. I have audited the financial statements of the National Economic Development and Labour Council set out on pages 60 to 105, which comprise the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence to substantiate the carrying amount of buildings included as part of property, plant and equipment, as the entity did not review and assess the residual value and useful life of buildings at each reporting date in accordance with GRAP 17, Property, plant and equipment. I was unable to confirm the carrying amount of buildings disclosed as property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to buildings stated at R14,735 million (2015: R17,014 million) in note 5 to the financial statements were necessary.

Qualified opinion

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the National Economic Development and Labour Council as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matter paragraphs

8. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Restatement of corresponding figures

9. As disclosed in note 34 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of an errors discovered during 31 March 2016 in the financial statements of the at and for the year ended 31 March 2015.

Material impairments

10. As disclosed in note 4 to the financial statements, Nedlac had trade and other receivables amounting to R1 962 908 as at 31 March 2016 of which R1 842 908 has been provided as an impairment due to doubts about the recoverability of the debt.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion thereon.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the entity for the year ended 31 March 2016:
    - Programme 2: Core operations on pages 22 to 28
    - Programme 3: Capacity building funds on page 29.

13. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

15. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following programmes:
    - Programme 2: Core operations
    - Programme 3: Capacity building funds.

Additional matters

16. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected programmes, I draw attention to the following matters:

Achievement of planned targets

17. Refer to the annual performance report on pages 18 to 30 for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

18. I identified material misstatements in the annual performance report submitted for auditing in the reported performance information for the programmes; core operations and capacity building funds. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

19. The supplementary information set out on pages 18, 19, 31 does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

Compliance with legislation

20. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance and annual reports

21. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the Public Finance Management Act. Material misstatements of trade payables, trade receivables, revenue, employee costs, retained earnings, cash flow statement, budget statement, fruitless and wasteful expenditure, irregular expenditure, financial instrument, commitments, related parties and contingencies identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided but the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

22. Effective steps were not taken to prevent irregular expenditure amounting to R8 497 269, as disclosed in note 29 to the annual financial statements, in contravention of section 51(1)(b)(ii) of the PFMA and treasury regulation 9.1.1.

23. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R806 727, as disclosed in note 33 to the annual financial statements, in contravention of section 51(1)(b)(ii) of the PFMA and treasury regulation 9.1.1.

Consequence management

24. Effective and appropriate disciplinary steps were not taken against officials who incurred and permitted irregular and fruitless expenditure, as required by section 51(1)(e) (iii) of the PFMA. This is because instances of irregular and fruitless expenditure were not investigated.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

Leadership

26. Leadership did not adequately exercise appropriate oversight over financial and performance management and reporting and related internal controls to ensure credibility of information submitted for audit. Policies and procedures did not adequately guide activities related to preparation of the annual financial statements and effective monitoring of compliance with laws and regulations.

Financial and performance management

27. Management did not implement internal controls relating document management: daily, weekly and monthly reconciliation disciplines and processes over the preparation and presentation of financial statements and performance information to ensure that the financials and performance report were free from material misstatements.

28. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented.

Auditor-General

Pretoria
31 July 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Accounting Authority's Responsibilities and Approval

The accounting authority is required by the Public Finance Management Act (No. 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting authority to ensure that the audited annual financial statements fairly present the state of affairs of the entity 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 audited annual financial statements and were given unrestricted access to all financial records and related data.

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

The accounting authority acknowledges that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the accounting authority to meet these responsibilities, the accounting authority 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 entity 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 entity's is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity 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 authority 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 audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting authority has reviewed the entity's cash flow forecast for the year to 31 March 2016 and, in the light of this review and the current financial position, they are satisfied that the entity has, or has access, to adequate resources to continue in operational existence for the foreseeable future.

The entity is wholly dependent on the Department of Labour for continued funding of operations. The audited annual financial statements are prepared on the basis that the entity is a going concern and that the accounting authority has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the accounting authority is primarily responsible for the financial affairs of the entity, they are audited by the entity's external auditors.

The audited annual financial statements set out on pages 60 to 105 have been prepared on the going-concern basis.

Mr P M Vilakazi
Executive Director
Johannesburg
31 July 2016

Audit and Risk Committee Report

We are pleased to present our report for the financial year ended 31 March 2016.

Audit and Risk Committee members and attendance

The Audit and Risk Committee consists of the members listed hereunder and should meet quarterly as per its approved terms of reference. During the current year, four meetings were held.

12 May 2015	17 July 2015	9 November 2015	19 January 2016

Name of member	Number of meetings attended
Adv Shami Kholong (Independent Chairperson)	4
Mr Nico Vermuelen (Business)	4
Mr Kugesh Naidoo (Community)	3
Mr Freddie Pietersen (Government)	4
Mr Chris Klopper (Labour)	2

Audit and Risk Committee responsibility

The Audit and Risk Committee reports that it has complied with its responsibilities arising from Section 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act, 1999 and Treasury Regulation 27.1.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter. It has during the year under review regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein and the related accounting policies and practices.

Stakeholder engagements

The Committee has been able to engage with the following stakeholders:

- Executive Council (EXCO)
- Management Committee (MANCO)
- Management
- Internal Audit Unit
- Auditor-General of South Africa, and
- The Portfolio Committee on Labour.

Audit and Risk Committee Report

The effectiveness of internal control

Our review of the findings of the Internal Audit work, which was based on the risk assessments conducted in Nedlac revealed some control weaknesses, which were raised with Manco and Exco.

The following internal audit work was completed during the year under review:

NO.	AUDIT PROJECT
1	Supply Chain Management
2	Performance Information
3	Human Capital Management
4	Review of the Strategic and Business Plan
5	Financial Discipline Review
6	Follow up reviews – Auditor-General findings
7	Follow up reviews – Internal Audit Findings
8	IT Governance Review
9	Mid-term Financial Statement Compliance Review
10	Unaudited Financial Statement Compliance Review

The following were areas of concern:

During the financial year under review, management did not always fully implement with required rigour numerous material control weaknesses identified by Internal Audit and the Auditor-General. Most of which had been raised before but were not resolved one hundred per cent. As a result, the Audit and Risk Committee recommends to both Manco and Exco that the Auditor-General and Internal Audit action plans should be strictly monitored for implementation in 2016/17 financial year to address all unresolved findings.

The Committee acknowledges efforts underway by management to address areas of concern raised by combined assurers. It further recognises efforts to fill key strategic vacancies as and when they arise.

Risk management

Nedlac continues to experience problems in institutionalising risk management in its business processes. There is a risk register in place. The Risk Management Committee has been established by management but did not meet in the third and fourth quarter of the financial year. The top ten risks are monitored by the Audit and Risk Committee and Exco regularly.

Risks pertaining to Asset Management and ICT governance have been noted and should be added to the risk register and continuously monitored. Management's assessment of inherent and residual risks appears significantly understated considering the number of high- and medium-level findings identified during the audits.

In-year management and quarterly report

Management has reported quarterly as required by the PFMA. In addition at all Audit and Risk Committee meetings, management has presented quarterly reports for review and or consideration by the committee.

Audit and Risk Committee Report

Evaluation of financial statements

We reviewed the Annual financial statements prepared by management and recommended them for audit subject to recommended refinements of the Audit Committee being implemented by management.

Evaluation of performance information

At the same audit committee meeting, we evaluated performance tables and recommended them for audit subject to recommended refinements of the Audit Committee being implemented by management.

Auditor-General's report

The one exception on property, plant and equipment which is a basis of a qualification is inter alia as a consequence of Nedlac being found not to have reviewed and assessed the residual value and useful life of a building in accordance with GRAP 17.

Finally, the Audit and Risk Committee concurs and accepts the conclusions of the Auditor-General on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General. The Committee has also reviewed the performance information as included in the auditor general report together with the management letter, and is of the opinion that the Accounting Officer should develop a strategy to address all findings contained therein.

Shami Kholong
Chairperson of the Audit and Risk Committee
Nedlac
31 July 2016

Accounting Authority's Report

The members submit their report for the year ended 31 March 2016.

1. Review of activities

Main business and operations

LEGISLATIVE AND OPERATIONAL OVERVIEW

Nedlac's work programme is driven by the legal imperative for social dialogue and participatory policymaking in terms of the Nedlac Act, No. 35 of 1994. In this regard, the Nedlac Act requires the institution to:

- Strive to promote the goals of economic growth, participation in economic decision-making and social equity;
- Seek to reach consensus and conclude agreements on matters pertaining to social and economic policy;
- Consider all proposed labour legislation relating to labour market policy before it is introduced in Parliament;
- Encourage and promote the formulation of coordinated policy on social and economic matters;
- Consider all significant changes to social and economic policy before it is implemented or introduced in Parliament; and
- Consider socio-economic disputes in terms of Section 77 of the Labour Relations Act.

The Nedlac work programme is therefore largely shaped by the policy and legislative agenda as determined by the government of the day. The Nedlac work programme is furthermore significantly influenced by global economic conditions and the socio-economic challenges confronting South Africa. In addition, the social partners also have the right to table issues for consideration. Nedlac is thus confronted with a host of issues on which it is required to engage. This engagement process is undertaken in compliance with the Nedlac Constitution and the Protocol for Tabling Issues at Nedlac. The engine rooms for engagement are as follows:

Public Finance and Monetary Policy Chamber

The Public Finance and Monetary Policy Chamber shall seek to reach consensus and make agreements for placing before the Executive Council on all matters pertaining to financial, fiscal, monetary and exchange rate policies, the coordination of fiscal and monetary policy, related elements of macroeconomic policy and the associated institutions of delivery.

Trade and Industry Chamber

The Trade and Industry Chamber shall seek to reach consensus and make arrangements for placing before the Executive Council on all matters pertaining to the economic and social dimensions of trade, industrial, mining, agricultural and services policies and the associated institutions of delivery.

Labour Market Chamber

The Labour Market Chamber shall seek to reach consensus and make arrangements for placing before the Executive Council on all matters pertaining to the world of work and the associated institutions of delivery.

Development Chamber

The Development Chamber shall seek to reach consensus and make agreements for placing before the Executive Council on all matters pertaining to development, both urban and rural, implementation strategies, financing of development programmes, campaigns to mobilise the nation behind government programmes and the associated institutions of delivery.

Net deficit of the entity was R2 853 902 (2015: surplus R350 997).

Accounting Authority's Report

2. Going concern

These financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

3. Subsequent events

The members are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Authority

The Executive Council is the Accounting Authority as represented by the Overall Convenors. The Overall Convenors, during the year and to the date of this report, are as follows:

Name
Mr B Ntshalintshali (Labour)
Mr D Mthalane (Community)
Mr V Seafield (Government)
Mrs L Lotter (Business)

5. Executive Director

The secretary of the entity is Mr P M Vilakazi.

6. Key managers' emoluments

Details for key managers' emoluments are disclosed in the employee related costs note 15.

7. Auditors

Internal auditors: O.M.A. Chartered Accountants
External auditors: Auditor-General of SA

Statement of Financial Position as at 31 March 2016

Figures in Rands	Note(s)	2016	2015 Restated*
Assets			
Current assets			
Cash and cash equivalents	3	6 435 199	7 544 572
Receivables from exchange transactions	4	128 324	1 981 024
		6 563 523	**9 525 596**
Non-current assets			
Property, plant and equipment	5	20 205 059	20 576 972
Intangible assets	6	682 929	189 695
Long-term debtor	7	429 609	–
		21 317 597	**20 766 667**
Total assets		**27 881 120**	**30 292 263**
Liabilities			
Current liabilities			
Payables from exchange transactions	8	1 359 271	1 180 947
Provisions	9	1 027 469	1 033 909
Short-term borrowings	10	168 172	168 172
Bank overdraft	3	-	12 940
		2 554 912	**2 395 968**
Total liabilities		**2 554 912**	**2 395 968**
Net assets		**25 326 208**	**27 896 295**

Statement of Financial Performance

Figures in Rands	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Interest received		518 117	765 952
Transfers from other government entities		16 667	14 955
Other revenue	11	643 118	48 068
Total revenue from exchange transactions		**1 177 902**	**828 975**
Revenue from non-exchange transactions			
Transfer revenue			
Transfers from other government entities	13	28 791 000	27 447 000
Total revenue	**14**	**29 968 902**	**28 275 975**
Expenses			
Personnel	15	(12 111 348)	(12 095 142)
Depreciation and amortisation expenses	16	(1 613 335)	(850 793)
Finance costs	17	(270)	(68 350)
Debt impairment	18	(1 842 908)	–
Miscellaneous	19	(16 964 066)	(14 910 693)
Total expenses		**(32 531 927)**	**(27 924 978)**
Operating/(deficit) surplus		**(2 563 025)**	**350 997**
Loss on non-current assets held for sale		(7 061)	–
(Deficit)/surplus for the period		**(2 570 086)**	**350 997**

Statement of Changes in Net Assets

Figures in Rands	Note(s)	Accumulated surplus	Total net assets
Opening balance as previously reported		24 449 356	24 449 356
Adjustments			
Correction of errors	34	3 095 942	3 095 942
Restated balance as at 31 March 2014		**27 545 298**	**27 545 298**
Surplus for the period restated		350 997	350 997
Total changes		350 997	350 997
Balance as at 31 March 2015		**27 896 295**	**27 896 295**
Deficit for the year		(2 570 087)	(2 570 087)
Total changes		(2 570 087)	(2 570 087)
Balance at 31 March 2016		**25 326 208**	**25 326 208**

Cash Flow Statement

Figures in Rands	Note(s)	Accumulated surplus	Total net assets
Cash flows from operating activities			
Receipts			
Grants			
Interest received		28 791 000	27 447 000
Other receipts		518 117	765 952
		659 784	63 024
		29 968 901	28 275 976
Payments			
Personnel			
Suppliers		(12 111 348)	(12 095 142)
Interest paid	17	(17 211 999)	(14 912 697)
		(270)	(68 350)
		(29 323 617)	(27 076 189)
Net cash flows from operating activities	**23**	**645 284**	**1 199 787**
Cash flows from investing activities			
Purchase of plant and equipment	5	(1 190 247)	(13 129 436)
Proceeds from sale of property, plant and equipment	5	13 959	21 255
Purchase of other intangible assets	6	(565 429)	(17 778)
Net cash flows from investing activities		**(1 741 717)**	**(13 125 959)**
Cash flows from financing activities			
Movement in short-term borrowings		–	168 172
Finance lease payments		–	(47 751)
Net cash flows from financing activities		**–**	**120 421**
Net increase/(decrease) in cash and cash equivalents		**(1 096 433)**	**(11 805 751)**
Cash and cash equivalents at the beginning of the period		7 531 632	19 337 383
Cash and cash equivalents at the end of the period	**3**	**6 435 199**	**7 531 632**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rands	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						
Interest received	415 000	–	**415 000**	518 117	103 117	A1
Transfers from other government entities	–	–	**–**	16 667	16 667	A2
Other operating revenue	125 000	–	**125 000**	643 118	673 907	A3
Total revenue from exchange transactions	**540 000**	**–**	**540 000**	**1 177 902**	**793 691**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	31 737 000	2 946 000	**34 683 000**	28 791 000	–	A11
Total revenue	**32 277 000**	**2 946 000**	**35 223 000**	**29 968 902**	**793 691**	
Expenses						
Personnel	(13 004 318)	–	**(13 004 318)**	(12 111 348)	**892 970**	A4
Depreciation and amortisation expense	(2 040 000)	–	**(2 040 000)**	(1 613 335)	**426 665**	A5
Finance costs	–	–	**–**	(270)	**(270)**	A6
Debt impairment	–	–	**–**	(1 998 698)	**(1 842 908)**	A9
Miscellaneous	(17 232 682)	–	**(17 232 682)**	(16 964 065)	**268 617**	A8
Total expenditure	**(32 277 000)**	**–**	**(32 277 000)**	**(32 531 927)**	**(410 716)**	
Operating deficit	**–**	**2 964 000**	**2 964 000**	**(2 563 025)**	**382 975**	
Loss on non-current assets held for sale or disposal groups	–	–	**–**	(7 061)	**(7 061)**	A10
(Deficit)/surplus before taxation	**–**	**2 964 000**	**2 946 000**	**(2 570 086)**	**375 914**	
Actual amount on comparable basis as presented in the budget and actual comparative statement	**–**	**2 964 000**	**2 964 000**	**(2 570 086)**	**375 914**	

Statement of Comparison of Budget and Actual Amounts

The approved budget for 2015/2016 was prepared on a cash basis, and the financial statements were presented on an accrual basis. The approved budget was for the period 01 April 2015 to 31 March 2016.

Variance explanations:

A1 The amount invested in the call account increased during the current financial year due to the increase in the grant received from the Department of Labour. The other reason for the increase in interest received was due to the fact that there was still unutilised retained surplus remaining on the call account which was higher than what was initially anticipated.

A2 Nedlac did not budget to receive a refund from SETA at the beginning of the year due to the fact that it is a very insignificant amount and these refunds are not known as they are determined by SETA based on the submissions to the South African Revenue Services during the year. However, during the year Nedlac did receive a refund from SETA.

A3 The increase is due to the fact that there was a receipt of a rental deposit which was paid back relating to the lease agreement of offices at 160 Jan Smuts Avenue. Also, Nedlac has recognised other income of R659 609 being the recovery of legal costs awarded from the matter relating to CONSAWU.

A4 The decrease on the personnel cost is due to the fact that there is a vacant position.

A5 The increase in the depreciation is due to the capitalised assets relating to building renovations.

A6 The variance is due to the fact that there was no budgeted amount for finance costs as Nedlac does not carry any interest bearing loans. The interest of R270 incurred was due to the fact that the current account was overdrawn by debit orders which were deducted from the Nedlac bank account earlier than expected.

A7 The variance on the lease rental is due to the fact that there are savings on the rental expense of the photocopy and printing machines.

A8 The variance is due to the fact that there were additional costs that were incurred relating to the International Minimum Wage Workshop which was hosted by Nedlac.

A9 The expenditure was not budgeted for.

A10 The budget deficit of R2 946 000 for 2015/2016 is due to the expenditure to be incurred during the 2015/2016 financial year which is funded from the retained surplus of Nedlac. The funds are still within Nedlac's bank account and due to the fact that they were already recognised as income in the previous financial years, they cannot be accounted as income again in the 2015/2016 financial year.

A11 The Minsiter approved that the additional revenue to be utilised from previous year's reserves to fund the operational expenses and capital expenses.

Accounting Policies

1. Presentation of Audited Annual Financial Statements

The audited 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 91(1) of the Public Finance Management Act (Act 1 of 1999).

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

1.1 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited 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 audited annual financial statements. Significant judgements include:

Impairment testing

The recoverable amounts of cash generating units and individual assets have been determined based on the higher of value in use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assets will remain in use for the next twelve months, however, the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill. The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. 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 goodwill and tangible assets are inherently uncertain and could materially change over time.

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.

Allowance for doubtful debts

On debtors, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 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 reporting 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 entity; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Accounting Policies

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 assets, or a combination of assets 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, its deemed cost is the carrying amount of the asset(s) given up.

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.

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.

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand-by equipment which can only be used in connection with an item of property, plant and equipment, are accounted for as property, plant and equipment.

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	**Average useful life**
Buildings	20 years
Furniture and fixtures	14-25 years
Motor vehicles	15-22 years
Office equipment	4-15 years
IT equipment	3-20 years

1.3 Intangible assets

An asset is intangible if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liabilities, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Accounting Policies

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Computer software	10 years

1.4 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; and
- 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).

Accounting Policies

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms-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 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.

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.

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.

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.

Classification

The entity 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
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at cost

The entity 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
Other receivables	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Accounting Policies

Initial measurement of financial assets and financial liabilities

The entity 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 entity 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.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- a combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

1.5 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.

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 lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

The current operating leases do not have escalations and therefore have not been straight lined.

Accounting Policies

1.6 Impairment of cash generating assets

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 assets future economic benefits or service potential through depreciation (amortisation).

A 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.

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

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.

The recoverable amount of an asset or a cash generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the entity; or
(b) the number of production or similar units expected to be obtained from the asset by the entity.

Criteria developed by the entity to distinguish cash generating assets from non-cash generating assets are as follows:

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable 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.

1.7 Share capital/contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.8 Employee benefits

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

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

Accounting Policies

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 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 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentives and performance related payments payable within 12 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 entity recognise 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 entity 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 entity recognises the expected cost of bonus, incentives and performance-related payments when the entity 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 entity 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 the 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.

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 entity settles the obligation.

Accounting Policies

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 surplus.

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

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 25.

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 entity 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.

Accounting Policies

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 entity 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 entity considers that an outflow of economic resources is probable, an entity 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 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date.

The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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.

Control of an asset arises when the entity 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.

Accounting Policies

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.

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.

Measurement

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

1.12 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.
A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.
Borrowing costs are recognised as an expense in the period in which they are incurred.

1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.14 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.

Accounting Policies

1.15 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA 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 PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year 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.

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.

1.16 Budget information

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

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

The approved budget covers the fiscal period from 1 April 2015 to 31 March 2016.

The budget for the economic entity includes all the entity's approved budgets under its control.

The audited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period has been included in the Statement of Comparison of Budget and Actual Amounts.

Notes to the Audited Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 105: Transfers of functions between entities under common control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this standard should be applied in accounting for a transaction or event that involves a transfer of functions or a merger.

It furthermore covers definitions identifying the acquirer and transferor, determining the transfer date, assets acquired or transferred and liabilities assumed or relinquished, accounting by the acquirer and transferor, disclosure, transitional provisions as well as the effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The entity has adopted the standard for the first time in the 2016 audited annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 October 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity's. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entityís overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 – Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information needs to be presented on initial adoption of this standard.

Directive 3 – Transitional provisions for high capacity municipalities states that no comparative segment information needs to be presented on initial adoption of the standard. Where items have not been recognised as a result of transitional provisions under the standard of GRAP on Property, Plant and Equipment, recognition requirements of this standard would not apply to such items until the transitional provision in that Standard expires.

Notes to the Audited Annual Financial Statements

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information needs to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions in the standard of GRAP on Property, Plant and Equipment and the standard of GRAP on Agriculture, the recognition requirements of the standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2015.

The entity has adopted the standard for the first time in the 2016 audited annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires than an entity prepare and present financial statements under the accrual basis of accounting to apply this standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this standard should be applied in accounting for a transaction or event that involves a transfer of functions or a merger.

It furthermore covers definitions identifying a transfer of functions between entities not under common control, the acquisition method, recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, measurement period, determining what is part of a transfer of functions, subsequent measurement and accounting, disclosure, transitional provisions as well as the effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The entity has adopted the standard for the first time in the 2016 audited annual financial statements.

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this standard should be applied in accounting for a transaction or event that involves a transfer of functions or a merger.

It furthermore covers definitions identifying a transfer of functions between entities not under common control, the acquisition method, recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, measurement period, determining what is part of a transfer of functions, subsequent measurement and accounting, disclosure, transitional provisions as well as the effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The entity has adopted the standard for the first time in the 2016 audited annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's audited annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Notes to the Audited Annual Financial Statements

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual audited annual financial statements. Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect user's assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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.

As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity` related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that a 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.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence.

Notes to the Audited Annual Financial Statements

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The entity expects to adopt the standard for the first time in the 2016 audited annual financial statements.

GRAP 108: Statutory receivables

The objective of this standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2016.

The entity expects to adopt the standard for the first time in the 2016 audited financial statements.

Directive 11 – Changes in measurement bases following the initial adoption of standards of GRAP

The objective of this directive is to permit an entity to change its measurement bases following the initial adoption of standards of GRAP. The change is based on the principles in the standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these standards of GRAP. The once off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the standards of GRAP.

Subsequent to the application of this directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the standard is for years beginning on or after 01 April 2016.

The entity expects to adopt the standard for the first time in the 2016 audited annual financial statements.

Notes to the Audited Annual Financial Statements

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Figures in Rands	Note(s)	2016	2015
Cash on hand		3 529	2 366
Bank balances		338 372	–
Short-term deposits		6 093 298	7 542 206
Bank overdraft		–	(12 940)
		6 435 199	7 531 632
Current assets		6 435 199	7 544 572
Current liabilities		–	(12 940)
		6 435 199	7 531 632

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:

Bank overdraft

The bank overdraft is due to debit orders transactions which were not included on the total amount of transfer from call account to current account.

Nedlac does not have approved overdraft facilities and accordingly there are not any unused bank overdraft facilities.

None of Nedlac's assets have been pledged as collateral of any kind.

4. Receivables from exchange transactions

Figures in Rands	Note(s)	2016	2015
Other receivable		1 971 232	2 136 814
Provision for impairment of other receivables		(1 842 908)	(155 790)
		128 324	**1 981 024**

Trade and other receivables impaired

As of 31 March 2016, trade and other receivables of R1 842 908 (2015: R155 790) were impaired and provided for.
The ageing of these loans is as follows:

Notes to the Audited Annual Financial Statements

Reconciliation of provision for impairment of trade and other receivables

Figures in Rands	2016	2015
Opening balance	155 790	155 790
Provision for impairment	1 842 908	–
Amounts written off as uncollectible	(155 790)	–
	1 842 908	**155 790**

Receivables age analysis

31 March 2016	Current	30 Days	60 Days	90 Days	120+ Days	Total
Gross trade receivables	–	–	–	–	1 971 232	1 971 232
Impairment	–	–	–	–	(1 842 908)	(1 842 908)
Net trade receivables	**–**	**–**	**–**	**–**	**128 324**	**128 324**

31 March 2015	Current	30 Days	60 Days	90 Days	120+ Days	Total
Gross trade receivables	138 116	–	–	–	1 998 698	2 136 814
Impairment	–	–	–	–	(155 790)	(155 790)
Net trade receivables	138 116	–	–	–	1 842 908	1 981 024
	138 116	**–**	**–**	**–**	**1 842 908**	**1 981 024**

5. Property, plant and equipment

	Cost/ Valuation	2016 Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	2015 Accumulated depreciation and accumulated impairment	Carrying value
Land	1 500 000	–	1 500 000	1 500 000	–	1 500 000
Buildings	22 195 144	(7 459 756)	14 735 388	23 368 986	(6 357 222)	17 011 764
Furniture and fixtures	2 862 928	(927 285)	1 935 643	1 439 187	(853 067)	586 120
Motor vehicles	587 831	(66 128)	521 703	169 688	(39 391)	130 297
Office equipment	1 210 136	(418 895)	791 241	1 068 272	(309 704)	758 568
IT equipment	1 133 154	(412 070)	721 084	918 521	(328 298)	590 223
	29 489 193	**(9 284 134)**	**20 205 059**	**28 464 654**	**(7 887 682)**	**20 576 972**

Notes to the Audited Annual Financial Statements

Reconciliation of property, plant and equipment 31 March 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	1 500 000	–	–	–	–	1 500 000
Buildings	17 011 763	317 600	–	(1 491 441)	(1 102 534)	14 735 388
Furniture and fixtures	586 120	30 148	(14 199)	1 491 441	(157 866)	1 935 644
Motor vehicles	130 297	418 143	–	–	(26 737)	521 703
Office equipment	758 568	157 150	(5 330)	–	(119 146)	791 242
IT equipment	590 223	267 206	(1 491)	–	(134 854)	721 084
	20 576 971	**1 190 247**	**(21 020)**	**–**	**(1 541 137)**	**20 205 061**

Reconciliation of property, plant and equipment 31 March 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Land	1 500 000	–	–	–	1 500 000
Buildings	4 846 495	12 698 778	–	(533 510)	17 011 763
Furniture and fixtures	638 796	18 569	–	(71 245)	586 120
Motor vehicles	136 014	–	–	(5 717)	130 297
Office equipment	628 383	234 400	(21 255)	(82 960)	758 568
IT equipment	547 387	177 689	–	(134 853)	590 223
	8 297 075	**13 129 436**	**(21 255)**	**(828 285)**	**20 576 971**

Details of properties

Property 1

Buildings	**2016**	**2015**
Purchase price of building: 26 July 2002	8 500 000	8 500 000
Additions since purchase or valuation of building	13 695 144	2 170 208
Building renovations (work in progress)	–	12 698 778
	22 195 144	**23 368 986**
Land		
Purchase price of land	1 500 000	1 500 000

Notes to the Audited Annual Financial Statements

6. Intangible assets

	Cost/ Valuation	2016 Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	2015 Accumulated depreciation and accumulated impairment	Carrying value
Computer software	805 892	(122 963)	682 929	240 463	(50 768)	189 695

Reconciliation of intangible assets 31 March 2016

	Opening balance	Additions	Amortisation	Total
Computer software	189 695	565 429	(72 196)	682 928

Reconciliation of intangible assets 31 March 2015

	Opening balance	Additions	Amortisation	Total
Computer software	194 424	17 778	(22 507)	189 695

7. Long-term debtor

The debtor relates to the amount owed by CONSAWU as tax bill from costs resulting of the court judgement which was in favour of Nedlac. The total amount outstanding as at 31 March 2016 and amounts to R549 608. The current portion of this amount which will be received during the 2016/2017 financial year is R120 000 this amount has been included in accounts receivable under current assets. The remaining portion of R429 608 (being long-term debtor) will be received during the period commencing 01 April 2017 up to 31 March 2024.

8. Payables from exchange transactions

	2016	2015
Trade payables	967 243	713 784
Payroll accruals	189 975	1 500
Other accrued expenses	202 053	465 663
	1 359 271	1 180 947

Notes to the Audited Annual Financial Statements

9. Provisions

Reconciliation of provisions 31 March 2016

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Bonus provision	679 295	667 598	(662 396)	(16 900)	667 597
Leave pay provision	354 614	359 871	(76 774)	(277 840)	359 871
	1 033 909	**1 027 469**	**(739 170)**	**(294 740)**	**1 027 468**

Reconciliation of provisions 31 March 2015

	Opening balance	Additions	Utilised during the year	Reversed during the year	Change in estimate	Total
Bonus provision	606 829	679 295	(562 113)	(87 691)	42 975	679 295
Leave pay provision	–	354 614	–	–	–	354 614
	606 829	**1 033 909**	**(562 113)**	**(87 691)**	**42 975**	**1 033 909**

A bonus provision was raised due to the implementation of a performance management system at Nedlac. The final bonus amount will be calculated on the individual staff members’ performance scorecard and is expected to be paid after the release of the audited financial statements.

The current leave pay accrual is based on the liability for the current leave cycle not utilised.

10. Short-term borrowings

The amount of R168 172 was deposited to the Nedlac bank account by Mrs Mkhize who is the wife of Mr H Mkhize. The amount has been disclosed under other payables as there is no supporting documents to clear it, also due to the fact that Mrs Mkhize was never recorded as a debtor of Nedlac. It is assumed the deposit might relate to an undergoing forensic investigation matter: this deposit has not been paid back to Mrs Mkhize due to the fact that the forensic investigation matter is still under investigation by the South African Police Service.

11. Other income

	2016	2015
Legal costs recovered	643 118	–
Insurance proceeds	–	48 068
	643 118	**48 068**

Notes to the Audited Annual Financial Statements

12. Financial instruments disclosure

Categories of financial instruments

Financial Assets

In accordance with IAS 39.09, The financial assets of the entity are classified as follows:

Financial assets	classification
Receivables	
Trade receivables	loans and receivables
Vat receivable	loans and receivables
Sundry debtors	loans and receivables
Bank, cash and cash equivalents	
Bank balances	held for trading

Financial liabilities

In accordance with IAS 39.09, the financial liabilities of the entity are classified as follows:

Financial liabilities	Classification
Creditors	
Trade payables	Financial liabilities at amortised cost
Accruals	Financial liabilities at amortised cost
Finance lease liability	Financial liabilities at amortised cost

Notes to the Audited Annual Financial Statements

2016
Financial Assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	–	128 324	128 324
Cash and cash equivalents	6 435 199	–	6 435 199
	6 435 199	**128 324**	**6 563 523**

Financial Liabilities

Trade and other receivables from exchange transactions	–	1 359 274	1 359 274

2015
Financial Assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	–	1 981 024	1 981 024
Cash and cash equivalents	7 544 572	–	7 544 572
	7 544 572	**1 981 024**	**9 525 596**

Financial Liabilities

Trade and other receivables from exchange transactions	–	1 180 949	1 180 949

Notes to the Audited Annual Financial Statements

13. Government grants and subsidies

	2016	2015
Department of Labour	28 791 00	27 447 000

14. Revenue

	2016	2015
Interest received	518 117	765 952
Transfers from other government entities	16 667	14 955
Miscellaneous	643 118	48 068
Grants	28 791 000	27 447 000
	29 968 902	28 275 975

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

	2016	2015
Interest received	518 117	765 952
Transfers from other government entities	16 667	14 955
Miscellaneous	643 118	48 068
	1 177 902	828 975

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

	2016	2015
Government grants & subsidies	28 791 000	27 447 000

Notes to the Audited Annual Financial Statements

15. Employee costs

	2016	2015
Basic	9 345 122	8 120 412
Bonus	667 598	679 296
Unemployment Insurance Fund	57 608	48 894
Workmen's Compensation	129 091	124 732
Skills Development Levies	117 471	115 664
Leave pay provision charge	10 693	298 493
	10 327 583	**9 387 491**

Remuneration of key management, Chief Financial Officer – Mfanufikile Daza Appointed in position – 5 December 2014

Annual remuneration	826 528	227 211

Remuneration of key management, Chief Financial Officer – Ronell Maartens Resigned from position – 22 May 2014

Annual remuneration	–	251 878
Other	–	23 537
	–	**275 415**

Remuneration of key management, Executive Director – Alistar Graham Smith

Annual remuneration	–	923 411
Other	–	95 000
	–	**1 018 411**

Remuneration of key management, Head of Programme Operations – Mahandra Naidoo

Annual remuneration	816 455	1 095 022
Other	140 782	91 592
	957 237	**1 186 614**

Total employee related costs	**12 111 348**	**12 095 142**

Remuneration of board members

Nedlac does not have a Board and is currently governed by an Executive Council in terms of the Nedlac Act ,1994. The members of the Executive Council are not remurerated for meeting attendance and preparation.

Notes to the Audited Annual Financial Statements

16. Depreciation and amortisation

Depreciation

	2016	2015
Buildings	1 102 534	533 510
Furniture and fixtures	157 868	71 245
Motor vehicles	26 737	5 717
Office equipment	119 147	82 960
IT equipment	134 853	134 854
Amortisation		
Computer software	72 196	22 507
	1 613 335	**850 793**

17. Interest paid

Interest paid	270	68 350

18. Debt impairment

Provision for bad debts	1 842 908	–

Notes to the Audited Annual Financial Statements

19. Miscellaneous

	Note(s)	2016	2015
Accounting fees		33 248	37 742
Advertising		54 949	98 321
Audit Committee remuneration		103 936	57 388
Auditors remuneration	21	1 543 972	1 272 454
Bank charges		20 516	12 613
Catering		772 982	516 174
Cleaning		56 677	37 218
Conferences and seminars		1 384 796	1 315 682
Consulting and professional fees		2 448 254	2 389 370
Electricity		491 792	329 419
Fines and penalties		41 469	270 793
Insurance		189 212	144 674
IT expenses		743 896	381 956
Lease rentals on operating lease	20	381 127	1 867 470
Levies		14 012	15 936
Maintenance and repairs		117 833	77 056
Motor vehicle expenses		9 958	11 032
Postage and courier		10 380	12 723
Printing and stationery		906 189	860 081
Promotions and sponsorships		16 062	170 146
Recruitment fees		1 113 048	523 473
Security (guarding of municipal property)		235 943	167 964
Staff welfare		4 270	158 413
Study grants		115 416	80 910
Subscriptions and membership fees		86	16 489
Telephone and fax		628 212	566 017
Training		65 013	57 390
Travel – local		4 997 866	3 316 896
Travel – overseas		462 952	144 894
		16 964 066	**14 910 694**

Notes to the Audited Annual Financial Statements

20. Operating (deficit) surplus

Operating (deficit) surplus for the year is stated after accounting for the following:

	2016	2015
Operating lease charges		
Premises	62 253	13 266
• Contractual amounts		
Equipment	39 129	270 205
• Contractual amounts		
Lease rentals on operating lease – other	279 745	1 583 999
• Contractual amounts		
	381 127	**1 867 470**

Gain on sale of non-current assets held for sale and net assets of disposal groups	(7 061)	–
Amortisation on intangible assets	72 196	22 507
Depreciation on property, plant and equipment	1 541 138	828 286
Employee costs	12 111 348	12 095 142

21. Auditors remuneration

External audit	1 096 377	751 601
Internal audit	447 595	520 853
	1 543 972	**1 272 454**

22. Taxation

No provision for South African normal taxation has been made as the Council is exempted in terms of Section 10(1)(CA)(1) of the Income Tax Act.

23. Cash generated from operations

(Deficit) surplus	(2 570 087)	350 997
Adjustments for:		
Depreciation and amortisation	1 613 335	850 793
(Loss)/gain on sale of assets	7 061	–
Debt impairment	1 842 908	–
Movements in provisions	(6 442)	427 080
Recovery of legal costs	(429 609)	–
Prior period error	–	2 063 261
Changes in working capital:		
Receivables from exchange transactions	9 793	(1 696 209)
Payables from exchange transactions	178 325	(796 135)
	645 284	**1 199 787**

Notes to the Audited Annual Financial Statements

24. Commitments

Authorised capital expenditure

Already contracted for but not provided for

	2016	2015
• Property, plant and equipment	–	–
• Project expenses	–	209 929
	–	**209 929**

Total capital commitments

Already contracted for but not provided for	–	209 929

Authorised operational expenditure

Already contracted for but not provided for		
• Internal audit fees	220 807	3 985
• Cleaning services	–	141 904
• Meetings – transcriptions	–	6 299
• Recruitment fees	–	88 966
• Employment agencies - contracts	–	180 300
• Printing cost	353 049	125 674
• Insurance	50 622	–
• Legal fees	102 620	–
• Website and internet fees	625 104	–
	1 352 202	**547 128**

Total operational commitments

Already contracted for but not provided for	1 352 202	547 128

This committed expenditure relates to operating expenses and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated, etc.

As at 31 March 2016 the contractual commitments exceeding a period of 12 months related to printing costs amounts to R353 049.

Notes to the Audited Annual Financial Statements

25. Contingencies

In accordance with section 53(3) of the PFMA, of 1999, as amended, states that: a Schedule 3 public entity may not budget for a deficit and may not accumulate surpluses, unless the prior written approval of the National Treasury has been obtained. Permission has been requested to retain the unused accumulated surplus for the year ended 31 March 2016. Accumulated surplus of R25 481 998 as at 31 March 2016 (31 March 2015: R27 896 296 (restated)): some of the funds will be used to fund commitments as disclosed in note 22.

The CCMA awarded a former Nedlac employee compensation of R460 000 for unfair dismissal in 2010, however, the matter became prescribed in terms of the Act in March 2015. At the meeting of the Manco held on 24 March 2016 management was requested to obtain documents with reasons that informed Nedlac's decision to apply for review of the award and the costs incurred in the process. The estimated legal cost as at 31 March 2016 on this matter is R47 866.

26. Risk management

Financial risk management

The entity's activities expose to the following financial risks:

Cash flow interest rate risk (market risk)
Credit risk
Liquidity risk

The accounting authority and the Executive Director have overall responsibility for the establishment and oversight of Nedlac's risk management framework. Nedlac's risk management policies are established to identify and analyse the risks faced by Nedlac, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Nedlac's activities. Nedlac, through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations.

Liquidity risk

Liquidity risk is the risk that Nedlac will encounter difficulty in raising funds to meet its commitments. Nedlac'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 Nedlac's reputation. The bulk portion of the surplus is carried as cash or cash equivalents.

The ageing of trade payables from exchange transactions at the reporting date is per the table below. The amounts disclosed are contractual cash flows.

At 31 March 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	1 359 271	–	–	–

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2016				
Trade and other payables	1 180 949	–	–	–

Notes to the Audited Annual Financial Statements

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to Nedlac, thereby causing financial loss. It is Nedlac's policy that all customers who wish to trade on credit terms are assessed for credit worthiness. In addition, receivable balances are monitored on an ongoing basis with the result that the exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

Financial assets exposed to credit risk at year end were as follows:

	2016	2015
Financial instrument		
Cash and cash equivalents	6 435 199	7 544 572
Receivables from exchange transactions	128 324	1 981 024
Receivables from exchange transactions (long-term debtor)	429 609	–

Market risk

Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

27. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. Funds will be available to finance future operations and the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

28. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- nature of the event; and
- estimation of its financial effect or a statement that such an estimation cannot be made.

29. Irregular expenditure

	2016	2015
Opening balance	7 010 925	2 754 988
Add: Irregular Expenditure - current year	4 007 707	4 255 937
Less: Amounts condoned	(2 521 363)	–
	8 497 269	**7 010 925**

Analysis of expenditure awaiting condonation per age classification

Current year	4 007 707	4 255 937

The accounting authority requested the National Treasury to condone the irregular expenditure. The major portion of the irregular expenditure relates to travel and accommodation where three quotations were used instead of going through the tender process. The Procurement Officer of the National Treasury has not yet condoned the irregular expenditure.

Notes to the Audited Annual Financial Statements

30. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

	2016	2015
Operating activities		
Actual amount as presented in the budget statement	645 284	1 135 475
Investing activities		
Actual amount as presented in the budget statement	(1 741 717)	(12 993 297)
Financing activities		
Actual amount as presented in the budget statement	–	52 072
Net cash generated from operating, investing and financing activities	**(1 096 433)**	**(11 805 750)**

31. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting authority and includes a note to the audited annual financial statements. Recruitment services procured during the financial year under review and the process followed in procuring this service deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and will be reported to the accounting authority on the 31 May 2016 for approval.

Notes to the Audited Annual Financial Statements

32. Related parties

Relationships

Public entity	Proudly South Africa Department of Labour
Members of key management	M Naidoo I Macun M Daza

Proudly South Africa was formed by Nedlac. Some of the Exco members of Nedlac are also board members of Proudly South Africa. Nedlac is also responsible for the appointment of the chairperson of the board of directors for Proudly South Africa.

Related party transactions

Grant received from related parties

	2016	2015
Department of Labour	28 791 000	27 447 000

Transactions with members of key management

M Daza	370	–
I Macun (Acting Executive Director)	69 674	–

Compensation to members and other key management

(Refer to note 15)

33. Fruitless and wasteful expenditure

Opening balance	682 283	–
Add: Fruitless and wasteful expenditure – current year	124 444	682 283
	806 727	**682 283**

Current year

Costs related to travel (e.g. air tickets) not utilised due to unforeseen circumstances and also to deviation from the supply chain management policy in terms of complying with three quotations.

Notes to the Audited Annual Financial Statements

34. Prior period errors

The correction of the prior year errors results in adjustments as follows:

	2016	2015
Statement of Financial Position		
Property, plant and equipment – prior period errors (incorrect depreciation)	–	1 350 313
Intangible assets – prior period errors (incorrect amortisation)	–	136 287
Provision for bonuses – overstated	–	87 691
Receivables from exchange transactions	–	1 842 908
Payables from exchange transactions	–	(235 298)
	–	**3 181 908**
Statement of Financial Performance		
Changes in the 2013-14 financial year	–	**3 095 942**
Depreciation	–	1 029 055
Amortisation		136 287
Revenue	–	1 842 908
Changes in the 2014-15 financial year	–	**85 959**
Depreciation and amortisation expenses	–	321 258
Travel and accommodation	–	(6 185)
Travel and accommodation	–	(127 827)
Printing and photocopier	–	(101 287)
Total impact on retained earnings	–	**3 181 901**

Description of prior period errors
Property, plant and equipment

Property, plant and equipment were depreciated incorrectly in the prior year. The useful lives and residual values were not appropriately considered due to a change in accounting estimate in useful life of property, plant and equipment.

Intangible assets

Intangible assets were amortised incorrectly in the prior year. The useful lives and residual values were not appropriately considered due to a change in accounting estimate in useful life of intangible assets.

Receivables from non-exchange transactions

Receivables from non-exchange transactions is made up of the following debtors:

H Mkhize – R 1 512 649

The amount raised as debtors relates to personal international and domestic travel expenses, payment to company where H Mkhize is a beneficiary and alleged accrued leave and personal expenses paid with Nedlac petrol card and credit card.

U Dulabh – R 265 765

The amount raised as debtors relates to staff advances and loans without approval and personal domestic travel expenses paid with Nedlac petrol card and credit card.

L Nare – R 43 824

The amount raised as debtors relates to personal domestic travel expenses.

Notes to the Audited Annual Financial Statements

C Palmer – R 13 955
The amount raised as debtors relates to personal domestic travel expenses.

A Mangale – R 6 712
The amount raised as debtors relates to personal domestic travel expenses.

Bonus provision – R87 691 overstated

Payables from exhange transactions – R235 400
A reversal of the debit balance in payables of R229 114 was made against expenses which were understated.

An accrual of R6 287 travel expenses was processed.

Depreciation and amortisation expenses
Property, plant and equipment were depreciated incorrectly in the prior year. The useful lives and residual values were not appropriately considered due to a change in accounting estimate in useful life of property, plant and equipment.

35. Operating lease

	2016	2015
Minimum lease payments due		
– within one year	146 090	–
– in second to fifth year inclusive	206 959	–
Present value of minimum lease payments	**353 049**	**–**
Non-current liabilities	206 959	–
Current liabilities	146 090	–
	353 049	**–**

The entity acquired photocopier machines by entering into a 36-month operating lease agreement with Konica Minolta South Africa (Pty) Ltd on 01 August 2015. The full contract value amounts to R 438 268,68. The operating lease expires on 31 July 2018.

Notes

National Economic Development
and Labour Council

Nedlac House, 14A Jellicoe Avenue, Rosebank, 2196
PO Box 1775, Saxonwold, 2132
Telephone +27 11 328 4200

www.nedlac.org.za

Designed and published by Blue Apple