ANNUAL REPORT 2016–2017

PROVINCE OF KWAZULU-NATAL

KWAZULU-NATAL FILM COMMISSION
SOUTH AFRICA

- OUR KINGDOM IS YOUR STAGE -

KWAZULU-NATAL FILM COMMISSION'S GENERAL INFORMATION

REGISTERED NAME:
KwaZulu-Natal Film Commission

PHYSICAL ADDRESS:
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POSTAL ADDRESS:
P O Box 5274, Durban, 4000

TELEPHONE NUMBER:
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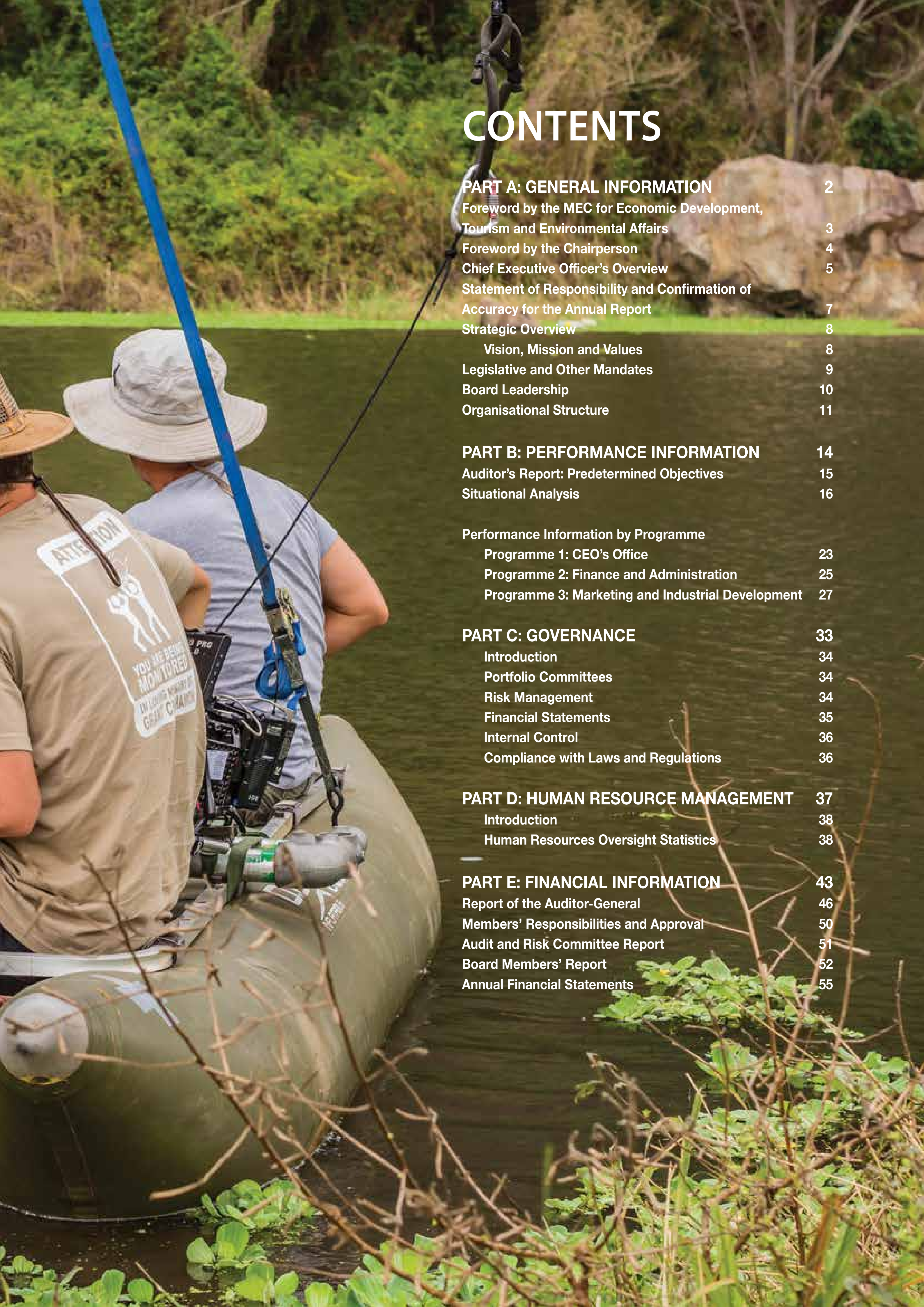
www.kwazulunatalfilm.co.za

KZNFC funded project photos – 2016
Design and layout by Artworks | www.artworks.co.za



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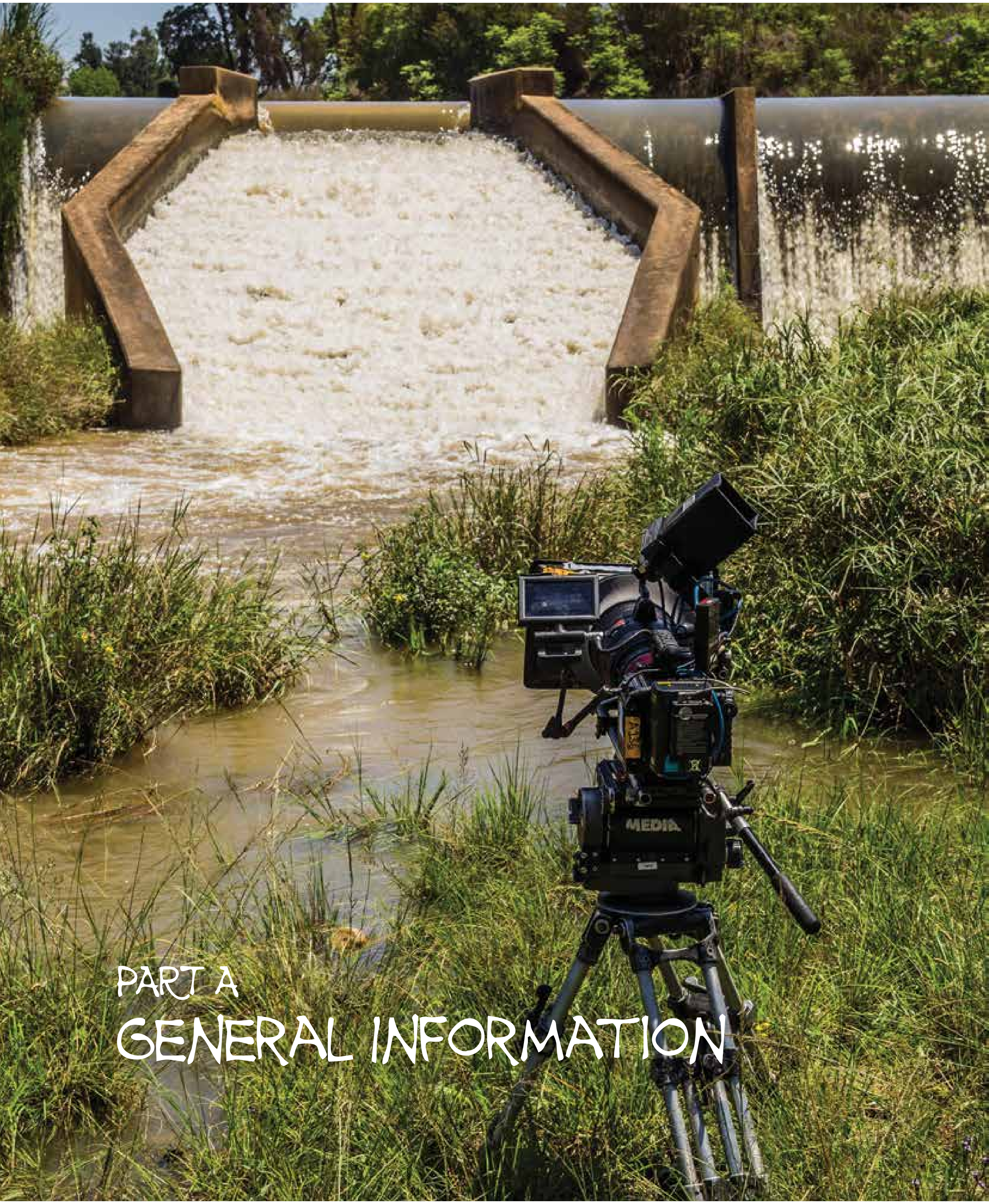
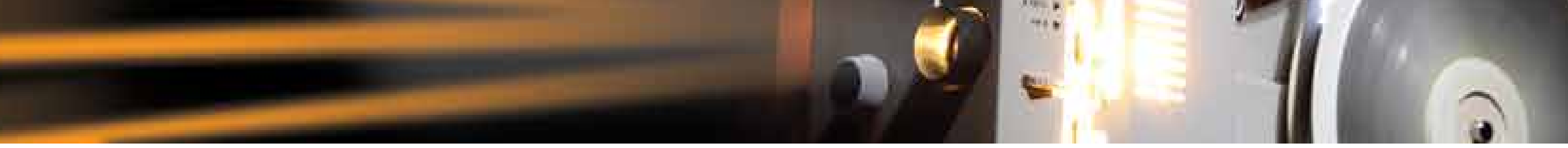


PART A
GENERAL INFORMATION



FOREWORD BY THE MEC

Economic Development, Tourism and Environmental Affairs

MR SIHLE ZIKALALA, MPL

MEC: ECONOMIC DEVELOPMENT, TOURISM AND ENVIRONMENTAL AFFAIRS

The film industry is considered as one of those sectors with great potential to make a meaningful contribution to radical economic transformation. For the 2017/2018 financial year, the KwaZulu-Natal Film Commission (KZNFC) was mandated to champion the Provincial Film Strategy that seeks to position this Province as a unique film destination in the country.

In so doing, our grand plan is to enable KwaZulu-Natal to develop and focus on its own unique filmmaking aspects to become a leader in the identified niche market areas. This strategy will be accompanied by a comprehensive skills development programme that will focus specifically on the affirmation of historically disadvantaged individuals, namely black Africans in general and the youth and women in particular.

In preparation for this new focused role, the KZNFC has already prepared itself to serve the Province's film industry in a newly developed film cluster, which was launched in March 2017. The cluster will provide the industry with modern film production logistics such as editing suites, rental offices and a cinema. These are some of the basic film requirements that the emerging filmmakers are struggling to access.

In embarking on this new journey for the film industry in the Province, we are fully cognisant of the traditional strengths of the Province as a destination of choice for the film industry, including diverse unspoilt locations, all-year-round favourable weather conditions, and our kaleidoscopic cultural offerings and as well as historical sites.

Likewise, the KZNFC will continue to explore ways and means to reduce the costs associated with filmmaking in the Province through seeking partnership agreements with key stakeholders in the industry to leverage maximum resources needed to accommodate our transformational agenda.

During the 2016/2017 financial year, there were 12 productions that were shot in the Province with the support of the KZNFC – with a total production value of R40.3 million (of which the Commission would have only contributed 25% as an incentive to attract such productions to the region). There were 23 productions that could be classified as developmental in nature as well as 12 professional projects that were approved during the 2016/2017 financial year, which will see increased activity in the Province in the forthcoming years.

Many of these projects include documentaries about the legends of the region as well as traditional stories highlighting the crucial role that Zulu folklore stories played in the television context with over 11 million isiZulu speakers in the country. The Commission will, therefore, continue to support the Durban International Film Festival, as the festival marks an important event in the international film festival calendar. It markets our Province nationally and internationally. The KZNFC will also continue to recognise our local talent through the annual Simon Mabhunu Sabela Awards – an event that has received a lot of support and appreciation from the local film industry and continues to grow in stature.

I would, therefore, like to take this opportunity to convey our sincere gratitude to the Board, Executive Management and the staff for championing the programmes of the KZNFC with great professionalism and success. Their efforts have resulted in the world paying attention to KwaZulu-Natal as one of the world's most beautiful settings for film productions.

Sihle Zikalala, MPL

MEC for Economic Development, Tourism and Environmental Affairs (EDTEA)

FOREWORD BY THE CHAIRPERSON

WELCOME MSOMI
CHAIRPERSON

It gives me great pleasure to report on the activities that were undertaken by the KZNFC in the 2016/2017 financial year. The KZNFC oversight was provided by the eight Board members who performed their duties during the financial year. A transfer amount of R71m was received from EDTEA for the financial year 2016/2017, representing an increase of 13% from the 2015/2016 budget allocation. The Entity has seen a total increase of 64% in its grant transfer from the Department in the last three years of its existence. This has assisted the Entity to focus its attention on providing support in the form of training and funding to the emerging filmmakers.

The KZNFC's strategic goals are as follows:

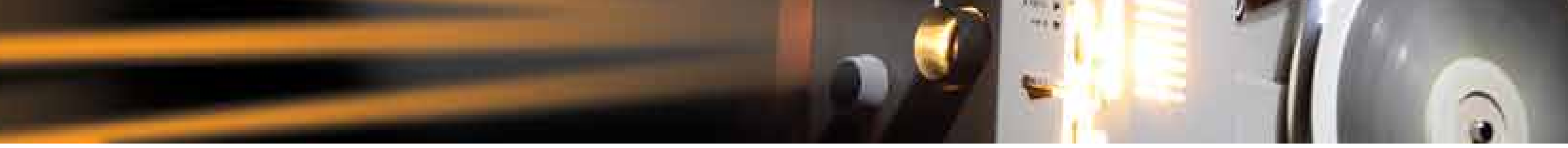
- To promote and market KZN to become a leading global destination for film production;
- To achieve a sustainable investment inflow into the film industry in the Province;
- To establish a competitive industry achieved through development and transformation; and
- To create a vibrant superior performance institution.

The KZNFC continues to aggressively market the Province as a national and international film destination of choice. Nationally, we have seen an increase in the number of the productions that have come to shoot in KZN and are very optimistic that we will grow this number – the future looks bright for the Province. Internationally, the Commission is receiving a number of enquiries from different film production companies, mainly from India, Europe and the Americas. Last year, the ROOTS series was shot in the northern parts of the Province. The growing interest in the Province is partly as a result of our participation and engagement in the various markets and festivals where we have been able to showcase what the Province has to offer to the film industry.

In the 2016/2017 financial year, the KZNFC was able to fund 23 development projects and 12 production projects to the tune of R12.8 m. During this financial year, there was an increase in production projects, including big projects that were funded in partnership with other stakeholders such as Keeping up with the Kandasamys, Gracie, Family Matters, Royal Assegai, Fragments of Imperfections, Asinamali, The Zulu Returns, 3 Days to Go and Durban Beach Rescue 2. We ensured that these productions were addressing policy priorities such as transformation requirements, skills transfer and contributing to the economic growth of the province through the Entity's funding and monitoring policies.

Lastly, on behalf of the Board, I would like to extend my gratitude to Ms C. Coetzee and her team for the excellent achievements made during the year. I would also like to thank my Board members for their support and guidance and our shareholder, the MEC S. Zikalala for his vision and support to the Board.

Welcome Msomi
Chairperson of the Board
Date: 30 May 2017



CHIEF EXECUTIVE OFFICER'S OVERVIEW

CAROL COETZEE
CHIEF EXECUTIVE OFFICER

The financial year 2016/2017 has seen the exponential growth of the film sector in the Province, most of which can be attributed to the support that the KZNFC has provided to the emerging filmmakers. Since the inception of the KZNFC three years ago, over 153 projects have been approved, of which 12 production and 45 development projects have been completed. Over R46 million has been committed on these projects. Most importantly, the bulk of the funding was for projects undertaken by emerging filmmakers.

Furthermore, the KZNFC developed a transformation policy to address the systematic challenges that the emerging filmmakers from historical disadvantage background face. The policy seeks to ensure that there is equitable and meaningful participation of historically disadvantaged individuals in the film industry. The film fund was mostly utilised for projects that were led by people from designated groups.

The KZNFC continued to focus on strategies to promote and market KZN as a choice film destination. The Department's grant transfer to KwaZulu-Natal Film Commission for 2016/2017 to execute the mandate was R71 million (which includes an additional R3.5m secured for the Ingomso Youth Incubator Programme). Income of R2.3 million was generated through investment income and services rendered at the film cluster. It is anticipated that the revenue will increase in the forthcoming year and will be retained by the Entity to offset the operational costs of the cluster. Expenses increased from R68.5m in 2016 to R69.8m year in 2017, mainly reflecting the set up and operational costs of the cluster. This is reflected in the increase in operational costs as well as depreciation with the increase in asset base.

The year end position showed a full commitment of the budget, however, 80% was cash spent through various programmes. The largest contributor to the underspend on the cash budget was the project fund and human capital development projects, which started later in the year than was planned and will be carried over into the 2017/2018 financial year. The film fund contains multi-year projects for which commitments are raised once the award is made and a contract concluded with the filmmaker. Payments will only be processed once the full production budget has been funded and the cash flows are according to deliverables, which can be over a 24-month period, depending on the nature of the project. The film fund was full committed at year end.

The application of the austerity measures saw a decline in the marketing costs referring to the expenditure relating to attendance at markets. The festivals and markets have been reduced as well as the number of delegates. This also relates to the filmmakers who are supported to attend markets.

The operating surplus at year end related, in the main, to the revenue that was generated and the net effect of the underspending explained above.

The balance sheet reflects a positive financial position, with a cash balance of R20,4m. Property, plant and equipment has doubled in value with the procuring of film cluster assets and the revaluing of assets' useful lives. The investment in the cluster is essential in order to ensure that emerging

filmmakers are provided with the tools required to deliver quality products. In terms of liabilities, the trade payables have declined sharply from R9.6m to R6.6m, with focused attention on clearing outstanding orders throughout the year.

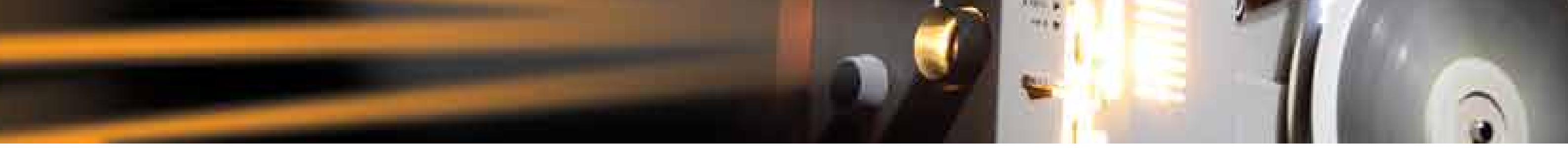
There have been no material changes to the financial statements, though there were adjustments made to prior years as indicated in the annual financial statements. The KZNFC is liquid and has a positive current asset ratio. The going concern of the Entity relies on the government grant from the department and the outcome of the rationalisation is yet to be established and its likely impact on the Entity. However, any outcome would require an extensive process, including labour engagements and legislative changes, which will take place over the medium term.

The bulk of the budget was channelled to assist projects and to conduct various skills development programmes for emerging filmmakers. The key priority is to produce a skilled workforce by ensuring that all training programmes should be accredited. We underestimated the requirements in this regard and therefore an interim solution was provided in partnership with NFVF to utilise their training programmes, while we endeavour to have all future training programmes accredited. The Memorandum of Understanding recently signed with Media, Information and Communication Technologies Sector Education and Training Authority (MICSETA) will facilitate this process. The end result of this process was that training programmes commenced late in the year and will only be completed in the second quarter of the 2017/2018 financial year. The calls for the various training programmes have always attracted overwhelming responses, which exceed our available resources. As a result, we are now in communication with the TVETs and MICSETA to provide training in various districts closer to the filmmakers' residences. The human capital development programme also included the awarding of 21 bursaries to fund tertiary students who are studying film related courses. These are renewed annually only where students perform at a satisfactory level.

In July 2016, the KZNFC hosted the Simon 'Mabhunu' Sabela Awards for its fourth year during the Durban International Film Festival. The event provides a platform to acknowledge the talent of KZN's emerging and established filmmakers through the 22 categories. The disabled community was recognised for the first time with a specific category for achievement in contributions towards the disabled sector. The event has grown over the years and the support that it receives from the industry is encouraging – over 600 filmmakers were in attendance.

Finally, I wish to express my sincere gratitude to my executive management team (Jackie Motsepe and Kea Bogatsu) and staff at the KZNFC who have demonstrated their commitment to the vision of the KZNFC. To our shareholder, the MEC, the Head of Department and his team – thank you for your support during the year and continued partnership in transformation, youth and women empowerment. I would like to express my sincere gratitude to our Board members for their guidance during the year in providing oversight in governance and ensuring that we remain focused on the critical priorities facing the industry. Finally, we have cemented very positive relationships with both public and private stakeholders and look forward to seeing tangible results coming from those agreements in the new year.

Carol Coetzee
Chief Executive Officer
Date: 26 May 2017



STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

To the best of our knowledge and belief, we confirm the following:

- All information and amounts disclosed in the annual report are consistent with the Annual Financial Statements audited by the Auditor-General.
- The Annual Report is complete, accurate and free from any omissions.
- The Annual Report has been prepared in accordance with the guidelines on the Annual Report as issued by National Treasury.
- The Annual Financial Statements (Part E) have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) standards applicable to the Public Entity.
- The accounting authority is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.
- The accounting authority is responsible for establishing and implementing a system of internal control that has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the Annual Financial Statements.
- The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the Annual Report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2017.

Carol Coetzee
Chief Executive Officer
Date: 30 May 2017

Welcome Msomi
Chairperson of the Board
Date: 30 May 2017

STRATEGIC OVERVIEW

Vision

The KZNFC's vision is to position KZN as a globally competitive, diverse and sustainable choice film destination.

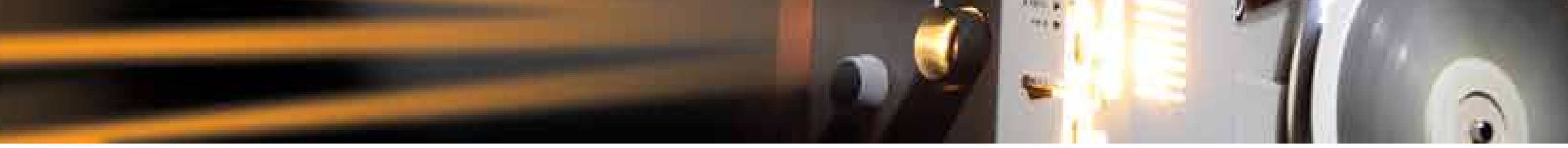
Mission

To facilitate effective support throughout the value chain to the local and international film industry stakeholders in order to create opportunities and grow the KZN film industry.

Values

The values of the KZNFC are aligned to the Provincial Citizen's Charter as follows:

- Uncompromising integrity
- Respect for all
- Collaboration
- Professionalism
- Accountability
- Innovation through leadership



LEGISLATIVE AND OTHER MANDATES

The KZNFC is mandated through the powers and responsibilities delegated by the Premier to the respective Member of the Executive Council (in relation to film). In KZN, this responsibility falls within the Economic Development, Tourism and Environmental Affairs portfolio.

At a national level, the primary legislative mandate of the National Department of Arts and Culture (under which portfolio this sector falls) comes from the Constitution of the Republic of South Africa, which states that: Section 16 (1) "Everyone has the right to freedom of expression, which includes:

- Freedom of press and other media;
- Freedom to receive or impact information or ideas;
- Freedom of artistic creativity; and
- Academic freedom and freedom of scientific research".

Section 30: "Everyone has the right to use language and to participate in the cultural life of their choice, but no one exercising these rights may do so in a manner inconsistent with any provision of the Bill of Rights".

Legislative Mandate

The KZNFC derives its mandate from the KwaZulu-Natal Film Act No. 3 of 2010, which established the KwaZulu-Natal Film Commission (KZNFC) and has as part of its objectives:

a) To promote and market the Province as a global destination of choice for film production;
b) To develop, promote and market, locally, nationally and internationally, the film industry in the Province;
c) To facilitate investment in the film industry in the Province;
d) To provide and encourage the provision of opportunities for persons, especially from disadvantaged communities, to enter and participate in the film industry in the Province;
e) To address historical imbalances in the infrastructure and in the distribution of skills and resources in the film industry in the Province; and
f) To contribute to an enabling environment for job creation in the film industry in the Province.

The other legislation that governs the operations of the Entity include the following:

- The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)
- Public Finance Management Act (Act No. 1 of 1999, as amended)
- National Treasury Regulations 2001
- The National Film and Video Foundation Act (Act No. 73 of 1997)
- Promotion of Access to Information Act (Act No. 2 of 2000)
- Preferential Procurement Policy Framework Act (Act No. 5 of 2000)
- Intergovernmental Relations Framework Act (Act No. 13 of 2005)

Policy Mandates

The MEC for the Department of Economic Development, Tourism and Environmental Affairs is responsible for defining the policy directives of the Entity. The Board is responsible for approving the operational policies of the Entity dealing with the financial, human resources and operational matters.

BOARD LEADERSHIP

Welcome Msomi
Chairperson

Nise Malange
Deputy Chairperson

Paul Raleigh

Ndabezithu Khoza

Zamokuhle Andrew Gwala

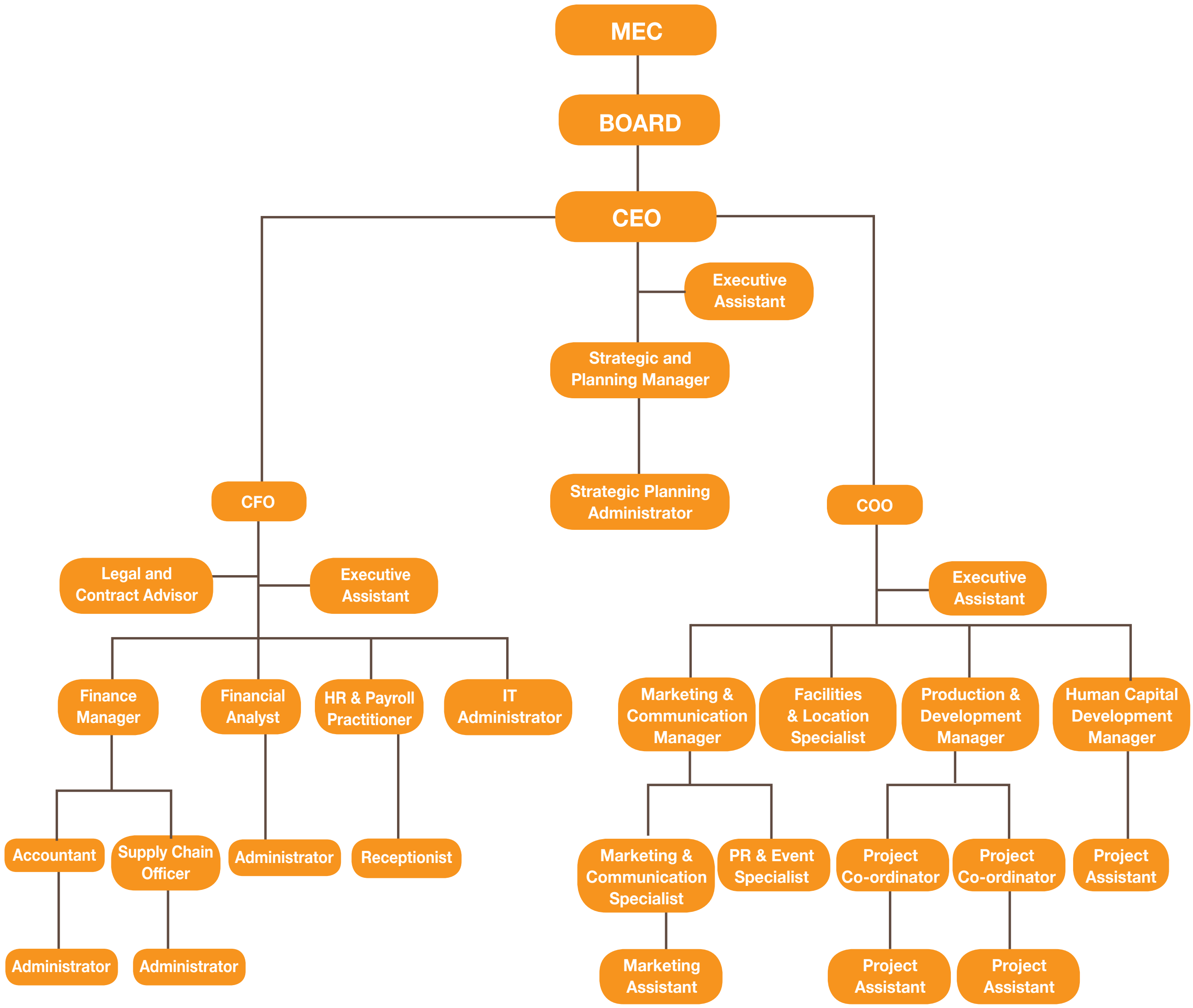
Nozizwe Mthembu

Leonie Berning

Carol Coetzee

Musa Mzimela

ORGANISATIONAL STRUCTURE



CHIEF EXECUTIVE OFFICER'S TEAM

Monitoring
Evaluation
Research
Strategy and Policy Development

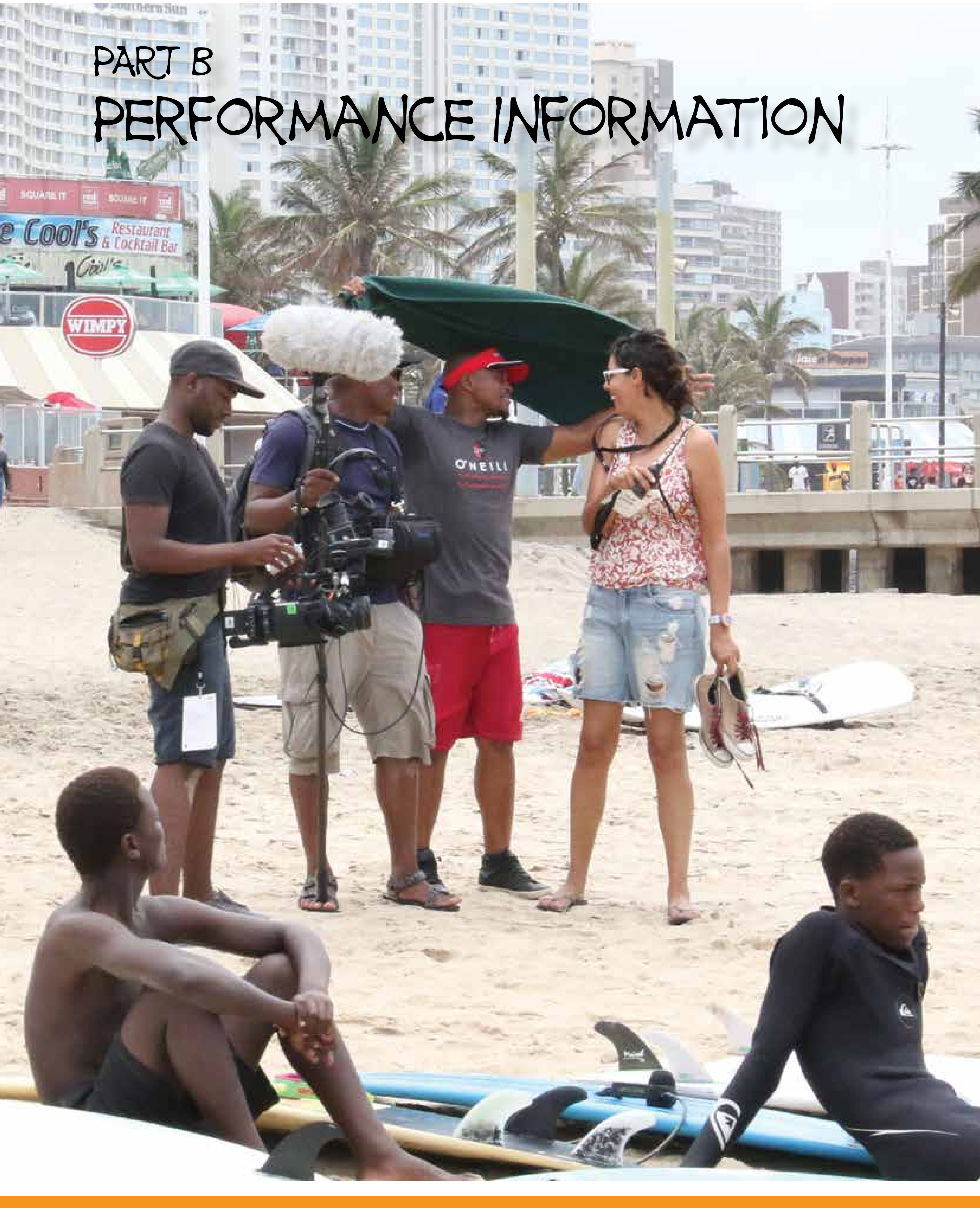
FINANCE AND ADMINISTRATION TEAM

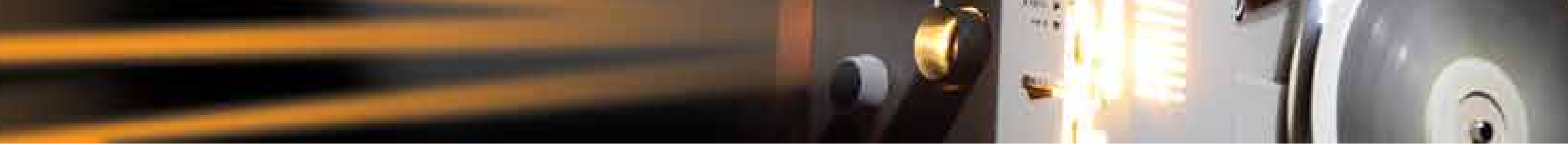
Financial Management
Human Resources
Information Technology
Corporate Services

MARKETING AND INDUSTRY DEVELOPMENT TEAM

Marketing & Promotion
Human Capital Development
Locations and Facilities

PART B
PERFORMANCE INFORMATION





AUDITOR'S REPORT: PREDETERMINED OBJECTIVES

The Auditor-General currently performs the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the report to management, with material findings being reported under the Predetermined Objectives heading in the report on the Other Legal and Regulatory Requirements section of the Auditor's Report.

Refer to page 46-49 for the Auditor-General's Report, published as Part E: Financial Information.

SITUATIONAL ANALYSIS

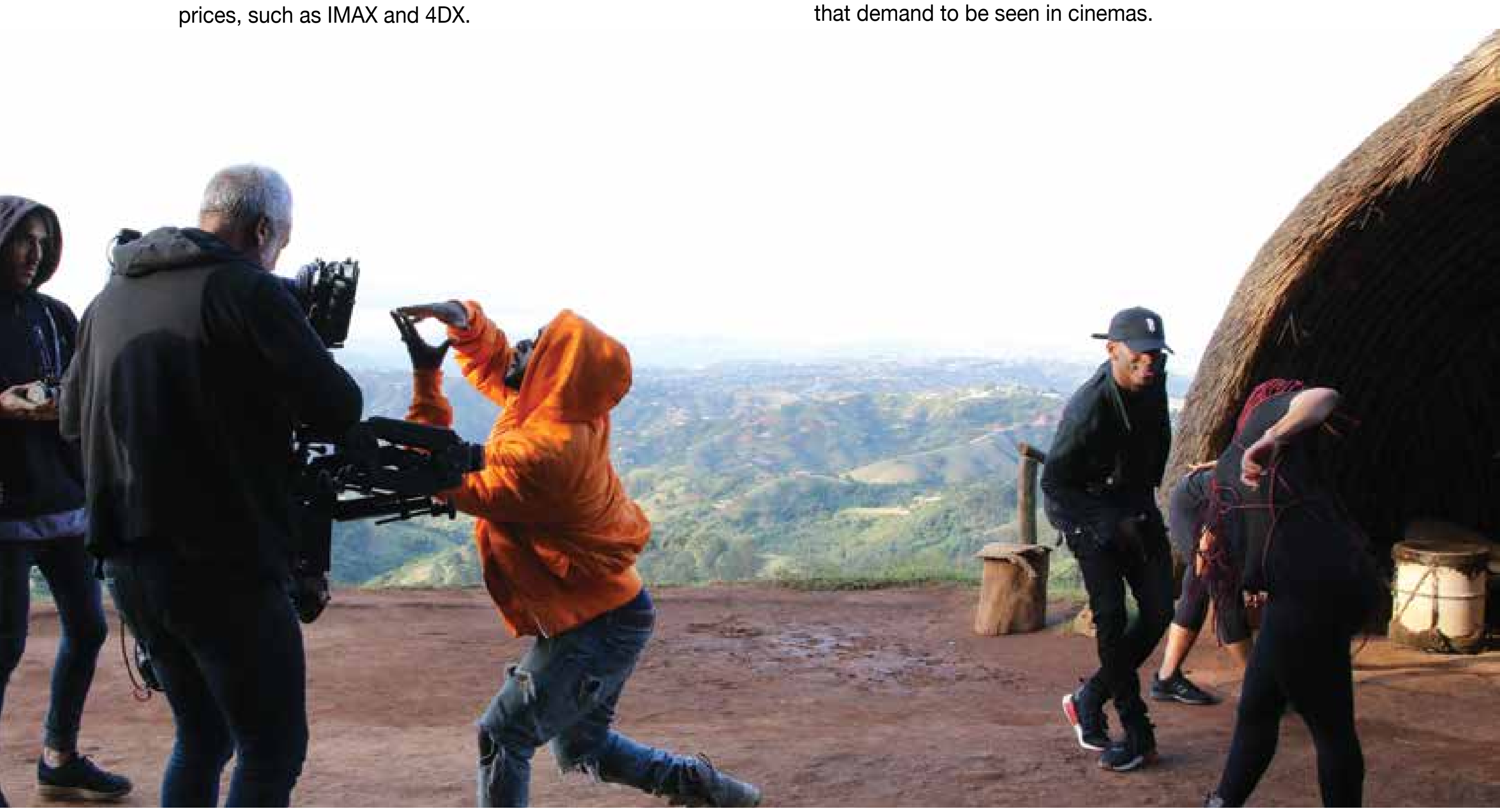
Overview of the Service Delivery Environment

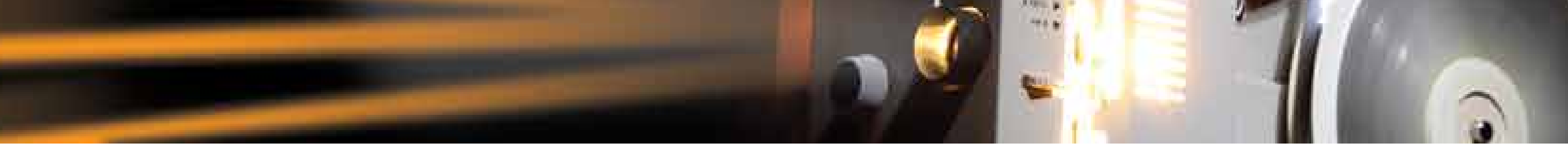
External Environment

In analysing the external environment, three areas that provide a platform for the consumption of the film industry were considered for analysis. These are cinemas, television and the Internet. The South African, Nigerian and the Kenyan situations were looked into to provide a balanced perspective of the African film industry environment.

The South African cinema revenues are projected to continue to be on an upward trajectory. Total cinema revenue in South Africa is expected to reach R2.1 billion in 2020, up from R1.8 billion in 2015, a compound annual growth rate (CAGR) of 3.3%. This mainly counts for the box office revenue projections and these increases are due to the following:

- **Admissions on a plateau, but box office revenue still to rise.** Cinema admissions are not forecast to grow from their 2015 base, but revenue will continue to rise thanks to small but consistent increases in admission prices over the forecast period, as well as new formats at higher ticket prices, such as IMAX and 4DX.
- **Weak currency to spur inward investment.** South Africa is an obvious attraction for international production due to financial incentives, stable weather, attractive locations, top crews and studio facilities – and the current weakness of the Rand is another major added attraction.
- **Ongoing rise of electronic home video intensifying the pressure on release windows.** In the US, total electronic home video revenue exceeded box office revenue for the first time in 2015. And at a global level, electronic home video will continue to narrow the gap on box office throughout the forecast period. This underlines how the rise of internet streaming companies like Netflix and Amazon Prime is putting growing pressure on traditional 'theatrical windows' – the 16- to 17-week period of exclusivity that cinemas demand before films filter through to ancillary platforms. Hollywood studios' responses include focusing on 'tentpole' movies: huge budget, big-screen offerings that demand to be seen in cinemas.



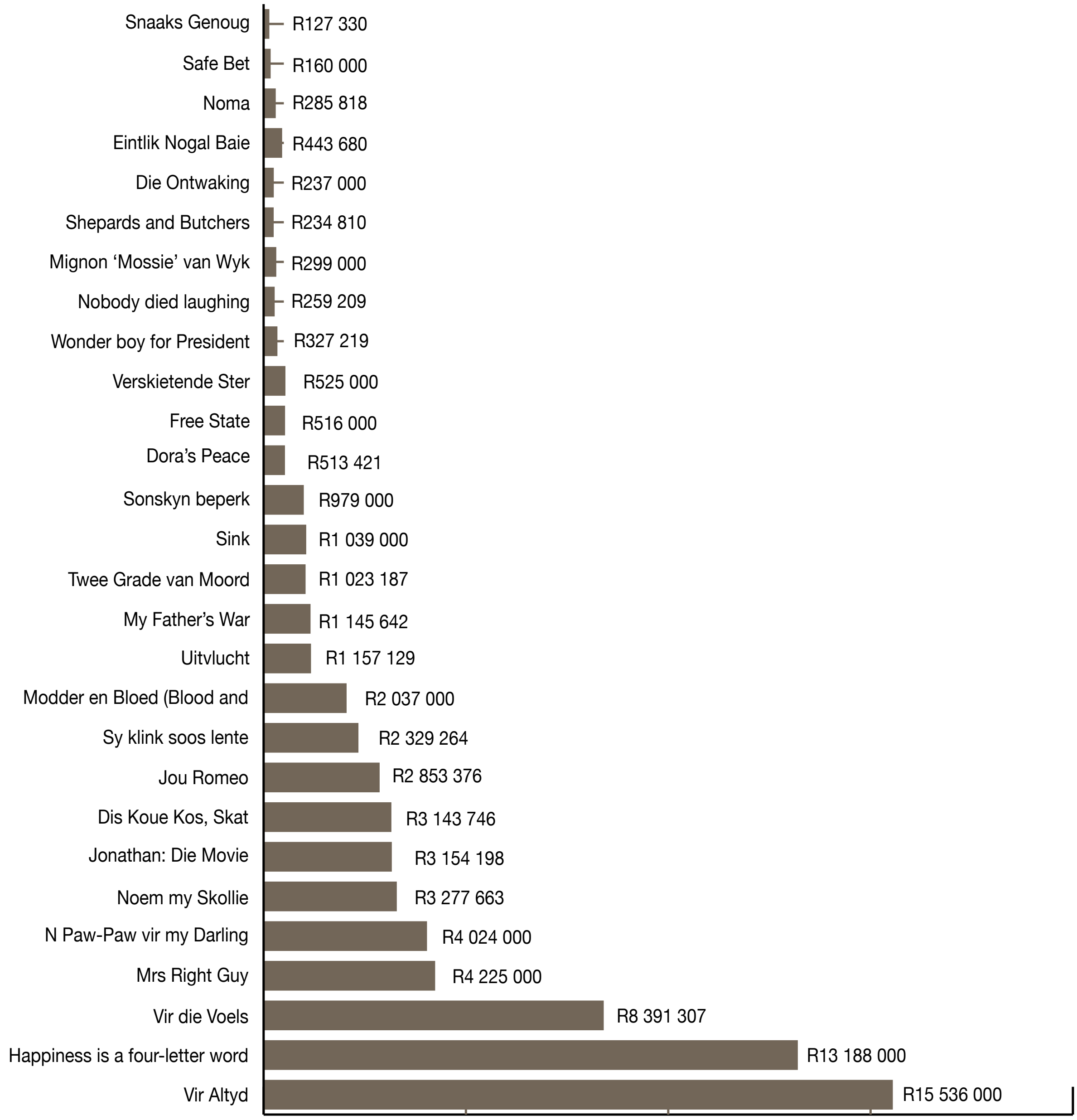


Local Films

The number of movies produced locally that are making it to the box office is still low. There are a number of reasons that are contributing to this scenario. These include: quality of the movies that are produced, a lack of funding and a lack of support to the locals throughout the value chain. Notwithstanding the challenges, 32 movies were released in 2016, a 46% increase from the 22 movies released in 2015.

The South African local movies totalled almost R71 500 000 in gross box office takings throughout 2016, slightly higher than 2015's total gross box office of over R69 200 000. The average gross box office revenue is R2 551 143 per movie. However, this average box office revenue per movie is lower than the previous year's gross box office R3 145 456 per movie due to the increase in the number of films. In comparison, 'international' movies being shot or involved in South Africa as a film location made

Performance of South African Movies at the Box Office in 2016



more in the gross box office. With a total of more than R284 million in box office takings[1]. The graph below shows the types of genres that were produced locally. The data shows that drama is the most popular genre for South African audiences, with over a third of movies that were produced locally being in the drama genre.

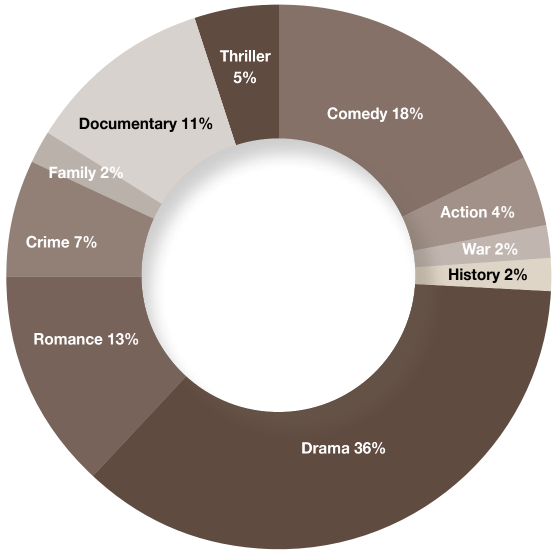
South Africa remains the site of some of the world's fastest growth in internet access revenue. South Africa's forecast CAGR of 11.7% in total internet access revenue is comparable to that of leading developing markets in Asia and Latin America. This increase in internet access provides a platform for growth of the consumption of film content. Notwithstanding the current South African challenges such as the high cost of data and limited broadband and access, mobile internet access adoption is projected to continue to expand rapidly. As a result, by 2020, mobile internet access revenues are projected to reach R61.6 billion – around 90% of total internet access revenues, compared with 88% in 2015.

Internet access is also expected to boost the South African video game market, which is already performing well and revenue is forecast to grow at a healthy CAGR of 5.6% to reach R3.7 billion in 2020, up from R2.8 billion in 2015. Social/casual gaming revenue overtook traditional gaming revenue for the first time in 2015 and will be the key growth area over the next five years, exceeding R2 billion by 2020.

South Africa is the largest TV market in Africa and continues to grow strongly, with pay TV subscription revenues expected to expand by a 5.9% CAGR to reach R25.2 billion in 2020. The audience for the public broadcaster SABC goes beyond the borders of South Africa. Some of the key facts about the TV market are as follows:

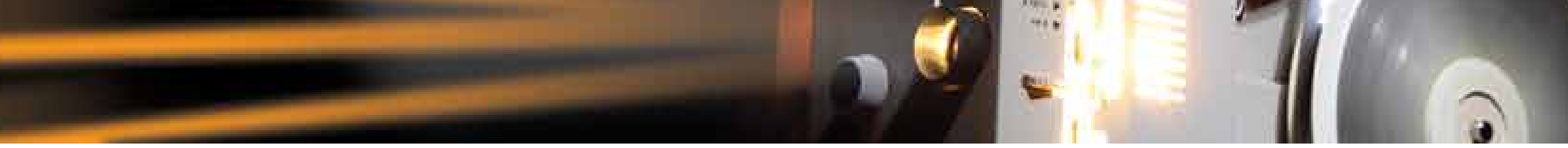
- Pay TV penetration will reach 42.1% by 2020 as the country adds an extra 2.1 million households to the market over the forecast period.
- MultiChoice has had success with GOtv pay DTT in 11 countries across sub-Saharan Africa, with the service being launched in South Africa in early 2016. The operator has promoted low-cost packages to entice the many low-income households across the region, offering digital services during the continued delays in analogue switch-offs.
- Broadband penetration of just 14% limits the success of OTT services, which remain focused on premium customers in the largest cities. Netflix was launched in January 2016 in South Africa but lacks local content, while key rights to its own original content are still held by MultiChoice across much of the region.
- Public broadcaster SABC continues to dominate the ratings, although losses have been made in recent years. It is heavily reliant on advertising revenues, which accounted for 74% of total income in 2015. Licence fee revenues were down to just 12%.
- The SABC is focused on local content and has mandated that 80% of broadcasts on its TV channels must be locally produced from July 2016, providing significant opportunities for filmmakers.
- SABC focused on content and spent R 1.4 billion on local content in the previous year and it is planning to spend R 1.9 billion in this year (2018).
- SABC has entered into partnerships with the KZNFC and the National Film and Video Foundation (NFVF) to share costs of an incubation hub, which looks for youth and women with stories in the Province. The content that is produced by the participants in this hub will then be shown on SABC.
- SABC has developed a project called the Provincial Training Initiative where 29 filmmakers would be trained from idea writing through to making a film for screening.

Genre of SA Movies 2016



Sources: Entertainment and media outlook: 2016-2020 • South Africa – Nigeria – Kenya, PwC, Ovum [KZN Indaba 27-28 March 2017]

1. Box Office Mojo. 2016.



International Perspective (Africa)

Nigerian cinema is on the rebound. The country is on a new path, opening new theatres across big cities. It is expected that this will result in an upsurge in box office revenue over the forecast period. The projected increase in revenues is at a CAGR of 8.7%, a rise from US$95 million in 2015 to US$144 million in 2020 supported by a huge market. The Nigerian film industry, also known as Nollywood, is second only to India's Bollywood in terms of production value (number of films produced). For a long time, the Nigerian film industry has been able to stand on its own without government levies or protection from competitors from other countries.

Recently, the Nigerian Broadcasting Commission (NBC) created some support for local production by putting in place a local content requirement during evening prime time. Thanks to sections 2 and 20 of Act 38 of the Nigerian Code of Broadcasting amended in 1992, Nollywood has positioned itself as a pioneer in the field of African audio-visual legislation. Since 1 April 2009, NBC required that programmes be 100% Nigerian on all national terrestrial television stations during prime time (19h00-22h00). More importantly, the content of these productions is strongly regulated in favour of quality and family programmes. The (NBC) quota system has made the Nigeria film industry strong. There are currently no quotas for the cinemas and the country is inviting more established cinema brands to come and invest in the sector.

MultiChoice is a leading player in Nigeria's pay TV industry, with its DSTV and GOtv services via satellite and pay DTT. With access to key sporting content, this is unlikely to change despite competition from StarTimes. The online video and OTT sectors in Nigeria and Kenya are in their infancy and limited by extremely low broadband penetrations of 3% and 2% respectively. Video streaming is limited to premium customers in major cities.

Kenya

Kenya is one of the countries in Africa with a fast growing film industry. Kenya is planning to introduce a highly competitive new tax incentive of 32% for foreign producers working in the country. This is intended to attract more filmmakers to shoot in the country and to produce content that the local population will be able to identify with. The total cinema revenue in Kenya is expected to reach US$7.7 million in

2020, up from US$5.2 million in 2015 – a CAGR of 8.4%. Furthermore, Kenya is forecast to be the world's fastest growing video game market over the next five years, with a CAGR of 13.4%.

Kenya's local content on TV's is 60%. Like in all other African countries, the quotas encourage the growth and sustainability of the film and entertainment sector of Kenya and enhance the capabilities of competing internationally in the long term. There are currently no quotas for the cinema.

In 2015, Kenya's TV market revenues declined by 2.9%. This was due to the analogue switch off that saw around 1.3 million Kenyan households being left without access to TV due to insufficient access to digital decoders. However, the outlook remains positive with growth of 9.5% CAGR over the forecasted period. Around 350 000 additional pay TV households will be added in the next five years, producing a total of 964 000 in 2020. However, due to high population growth, pay TV penetration in Kenya will actually fall to 16.3% at that time, compared with 19.1% in 2015.

KZN Film Industry

KZN film industry is fairly small in comparison to the Western Cape and Gauteng film industries. The size of the industry in this instance is being measured by a number of productions that each province is able to host each year. The factors that have been identified as inhibitors or barriers to the KZN film sector are infrastructure, skills and funding. The Province has developed a provincial film sector strategy with the intention of addressing some of these barriers that hinder the growth of the film sector in the Province. The strategy has identified three strategic areas to focus on, which are Zulu content, business video and digital content.

In terms of the available infrastructure and resources, KZN currently has approximately 94 screens, employing approximately 244 people in 13 cinemas. KZN film companies employ, on average, seven full-time equivalent (FTE) workers with an average of one FTE job created for every R193 863 in revenues. In 2014, the production stages, distribution, and exhibition sub-sectors provided 1 481 direct jobs, and sustained 4 274 jobs in KZN in total. The KZN Film and TV sector contributed R327.46m to the Gross Domestic Product (GDP) in the same year. The KZN multiplier effect of 1,97 is below the national indicator of 2,89, as a result of the leakages experienced in KZN production funding due to a lack of infrastructure and skilled professionals. Only 50% of graduates remain in the Province, with 28,8% remaining to continue studies, and the balance remain unemployed. With the envisaged growth in the industry, a significant impact will be reflected in the number and nature of jobs created and skills retained in the Province.

Internal Environment

During the financial year 2016/2017, a number of vacancies arose in the finance department. The introduction of new mechanisms to approve the filling of posts in the Province has created significant delays in the filling of these posts and temporary personnel were employed. This is not sustainable and the risks associated have been highlighted to the Board and the shareholder. It is envisaged that once the rationalisation process has been concluded, a way forward will be agreed upon to ensure that service delivery and governance is not compromised.

A total number of ten interns were recruited during the year through a partnership with NFVF. The interns were placed in the various sections of the Entity, ensuring that they receive exposure in a number of different areas aligned to their qualifications. This is a two-year programme that will ensure that they are eligible for entry level positions at any organisation.

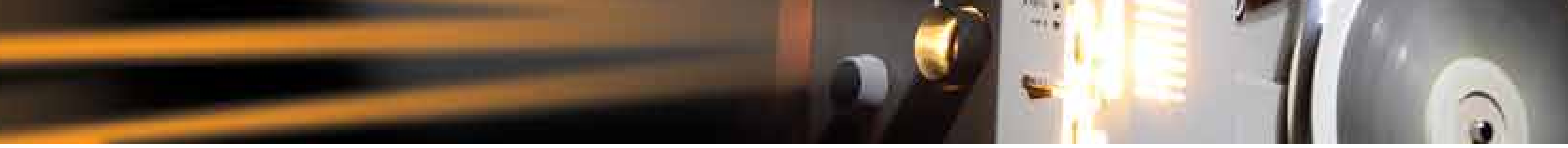
Notwithstanding the human resource constraints, KZNFC has put in place various programmes to develop its personnel based on their performance and on career development aspirations. All staff participated in the leadership course that ensured improved communication, strategic alignment and commitment to the agreed upon values of the organisation. A key output was the establishment of the staff forum, which will ensure that employee's participation on matters affecting their work environment is enhanced.

The KZNFC moved into new premises in March 2016, with relatively limited interruptions to the business of the Entity. The teams have settled into the new premises and actively promote the cluster to the film sector.

Overview of the Organisational Environment

The Board held its annual strategy review to ensure continued alignment of the programmes of KZNFC to the needs of the industry, national and provincial priorities and within its legal mandate. The Department (EDTEA) was invited to unpack the provincial film strategy.

The KZNFC held a number of engagements with various stakeholders, from filmmakers to councillors to community



members. The workshops with filmmakers were mainly meant to share industry information, receive input in the development of the Annual Performance Plan and to conduct training. The workshops with the municipal councillors focused mainly on the development of the generic municipal film-friendly by-law. This was to standardise the procedures and processes to be followed when filming in the Province. KwaZulu-Natal Film Commission also continued working with other national and provincial entities to enhance its fund offerings through increased co-operation and accessibility to filmmakers.

Key Policy Developments and Legislative Changes

The shareholder, in partnership with the KZNFC, developed the provincial film industry strategy during the year under review. The strategy recognises the importance of embracing the media entertainment sector, which is a broader definition that the film sector as contained in the KZNFC founding legislation. This will, therefore, require an amendment to the legislation in the new financial year and consideration of the impact of the KZNFC resources.

Strategic Outcome Oriented Goals

The KwaZulu-Natal Film Commission sought to achieve the following strategic outcome oriented goals for 2016/2017:

- To operate an effective administrative businesses processes inculcating good governance, risk and compliance;
- To facilitate transformation in the film industry;
- To facilitate human capital development in the film industry;
- To facilitate investment promotion into KwaZulu-Natal's filming industry; and
- To promote and market KwaZulu-Natal as a choice film destination.

The achievements made in terms of the above strategic outcome oriented goals are outlined under the performance information section. However, it is important to briefly

elaborate on how activities that are undertaken by the KZNFC create value to the economy, society and to the environment in line with King 111 principles of corporate governance.

KZNFC strategic goals are aligned to the National Development Plan, New Growth Plan, KZN Provincial Growth and Development Strategy and to other national and provincial policies that seek to improve the economic outlook of the country through job creation and economic growth. Through the KZNFC film fund, the KZNFC deliberately targets youth, the disabled and women to participate in the film industry being most vulnerable and marginalised in our society. The KZNFC further provides skills development programmes to ensure that the industry has people who are skilled and who will be able to retain the film business the Province.

In terms of environmental matters, KZNFC is striving to become paperless in its operations and to save energy by using LED lights for its offices. Also, travelling is kept at a minimum to minimise carbon emission. When attending outside meetings, staff are encouraged to travel in a group.

To conclude, in terms of critical dependencies that impact on the KZNFC's ability to deliver, the KZNFC as a public entity is wholly dependent on the grant from Department of Economic Development, Tourism and Environment Affairs. With cost-cutting measures, Treasury circulars and the rationalisation processes, the decisions that are taken by the Department directly impact the Entity in terms of independent decision-making and medium- to long-term planning. In addition, the decisions at a national level surrounding funding and incentives also impact on the competitiveness of the region on a global scale. Any reduction in incentives will see a corresponding decline in productions impacting on job creation and revenue generation. In terms of challenges being faced, the majority of the established companies with resources and skilled crew are located outside the Province. As a result, it is expensive to do business in KZN as it means that film companies are forced to hire the equipment and services from other provinces. KZN is, however, considered to have considerable growth propensity with the correct support. As a relatively new entity, KZNFC can create its own reputation of excellence in filmmaking and support.

PERFORMANCE INFORMATION BY PROGRAMME

PROGRAMME ONE:
Chief Executive Officer's Office

Programme Purpose

The main purpose of the Chief Executive Officers' office, is to provide strategic guidance through delivering on the strategic objectives while ensuring compliance within the legislated environment.

Functions co-ordinated under this programme include:

- Developing strategies, policies and standards of performance;
- Developing statutory and ad hoc reporting on the performance of the organisation;
- Monitoring performance and evaluating the outcomes of the organisation;
- Quality Assurance Management Programme;
- Driving the programme of governance, risk and compliance through the organisational values, culture and leadership;
- Policy and legislation advocacy, drafting and implementing;
- Stakeholder development, networking and engaging to enhance relationships, encouraging local production and ensuring a clear understanding of the mandate and services of the KZNFC;
- Negotiating and entering into partnerships with various stakeholders to enhance the competitiveness of KZN through film friendly programmes and to secure additional funding to further enhance and increase our outcomes;
- Overseeing the effectiveness of the functions and operations of the Board and its committees to enhance its governance and oversight;
- Overseeing the internal audit function and risk management of the organisation;
- Conducting research designed to inform future programmes of the organisation; and
- Managing the Corporate Social Responsibility Programme for the organisation.

Key Performance Indicators, Planned Targets and Actual Achievements

High Level Review of Performance Information

Programme Strategic Objective: To Operate Effective Administrative Business Processes inculcating Good Governance, Risk and Compliance					
Performance Indicator	Actual Achievement 2015/2016	Planned Target 2016/2017	Actual Achievement 2016/2017	Deviation from Planned Target to Actual Achievement for 2016/2017	Comment
Number of research/ monitoring and evaluation papers produced	6	4	10	+6	The target was met and exceeded. Additional requests were received by business units and additional capacity was provided through internship and partnership with AFDA.
Number of MOUs signed to reduce film production costs KZN	New Indicator	1	4	+3	Four MOUs were signed during the annual financial year with AMAFA, KZN Fashion Council, Madlula Travel Tours and SEDA.

Research Projects

As a means to continuously deepen our knowledge and understanding of the issues affecting the film industry, the Entity identified specific research topics that were undertaken in 2016/2017. The research projects that were concluded during the year included the history of the film industry in KZN since 1916 and the levies and quotas. The history of the film industry in KZN looked at the popular locations for filming in KZN, and the popular genres and directors who were involved. The ultimate objective of the research is to integrate it with a KZN tourism map. The research on levies and quotas looked at the effects of these strategies in supporting the emerging film industry. Information was analysed in relation to the film sector after the 1930 great depression. The research looked at the developments in countries such as Great Britain, German, France, US and Brazil. The information is to assist in understanding how the two strategic approaches can assist in the formulation of policies that will feed into the White Paper review at National Department of Arts and Culture.

Monitoring and Evaluation

Monitoring and Evaluation (M&E) was conducted on the following projects during the financial year; Gracie, Keeping up with the Kandasamys, Family Matters and Long Walk Park. The reports indicated that projects are undertaken within the contract conditions (local spend, local employment, empowerment targets) and there was good feedback from directors and producers on how the KZNFC support system could be improved. Also, the involvement of youth in the projects and the creation of training opportunities for interns was identified as a positive development in the film industry.

Audience Development

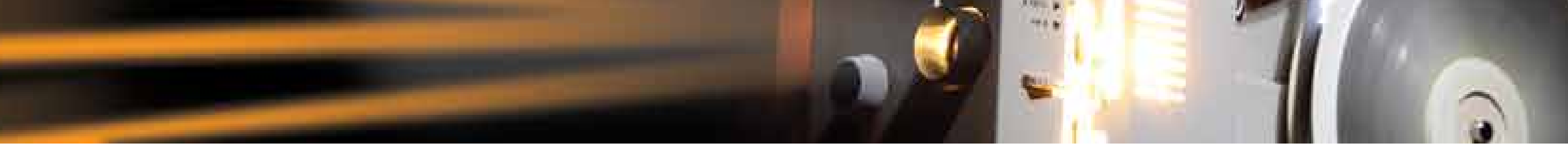
The business unit commissioned the audience development research in the fourth quarter of 2016/2017. The final report is expected to be finalised during the first quarter of the 2017/2018 financial year. The research seeks to acquire a detailed understanding of the size of the audience for film in KZN and the characteristics and preferences of the audience in order to assist the KZNFC in formulating policies and developing strategies for audience development, attracting investors, informing funding strategies, and enabling filmmakers to make use of the research to make informed decisions that will help to build a commercially viable film industry in KZN.

Community Social Investment (CSI)

KZNFC supported a crèche at Inanda as part of its CSI programme for 2016/2017 financial year. The support will be done in phases to ensure that the adopted crèche is fully functional, equipped with necessary tools to teach the children.

Governance, Risk and Compliance

Governance, risk and compliance (GRC) as a management tool is meant to ensure that an organisation meets all its strategic objectives in an efficient and sustainable manner. The GRC targets have been set as multi-year targets as from 2017 and quarterly progress reports are provide to the Audit and Risk Committee and the Board.



PROGRAMME TWO:
Finance and Administration

The core activities of this programme relate to the management and direction of the finance and administration of the KwaZulu-Natal Film Commission in support of the core business of the Entity.

The effective administration of the public entity is essential to ensure efficient service delivery. The Finance and Administration Business Unit provides the required services such as financial management, human resource development, information technology and corporate services.

Programme Purpose

The core business of the Finance and Administration Business Unit is to enhance the KZNFC financial, human resources and information technology administration reporting capability, and to ensure service efficiency within the regulatory framework.

Functions co-ordinated under this programme include:

- Financial management and reporting
- Administration support
- Management and cost accounting
- Supply chain management
- Legal and contracts management
- Human resources management
- Information communication and technology management
- Business facilitation to attract investments

Key Performance Indicators, Planned Targets and Actual Achievements

Programme Strategic Objective: To Operate Effective Administrative Business Processes inculcating Good Governance, Risk and Compliance					
Performance Indicator	**Actual Achievement 2015/2016**	**Planned Target 2016/2017**	**Actual Achievement 2016/2017**	**Deviation from Planned Target to Actual Achievement for 2016/2017**	**Comment**
Outcome of Auditor-General's Report	Unqualified	Unqualified	Unqualified report for 2015/2016	N/A	Unqualified, with no material findings (clean audit) was achieved for 2015/2016
Percentage of procurement spent on BEE businesses to equate level 4 status	97%	100%	108%	+8%	The over achievement of 108% is due to the focused approach in securing services from BBBEE companies, at level 4 and above
Vacancy rate on approved staff complement	3%	6%	16.12%	-10.12%	The filling of positions remains at the discretion of the MEC and Premier. The required approvals are awaited pending the outcome of the rationalisation
Percentage of staff undertaking training programmes	64%	100%	100%	0	All trainings that were scheduled to take place within the financial year 2016/2017 were completed

Film Cluster

The Film Cluster is an integrated facility aimed at enhancing the value chain of the KZN film industry. The cluster brings together the different role-players in the industry so that they are able to maximise their resources. This one-stop shop for filmmakers enhances synergies within the film sector in KZN, subsequently reducing operating costs.

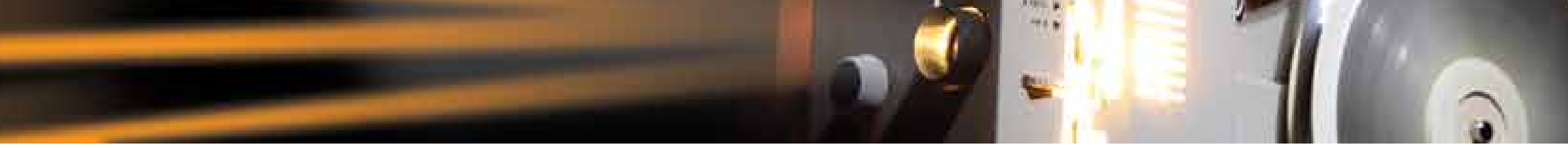
The KZN Film Cluster was completed in the 2016/2017 financial year and officially launched on 27 March 2017. The film cluster consists of: six edit suites, hot desks, a resource centre, sound room with a fully equipped recording booth, open plan offices, six private offices, one production office, 150-seater training room, 43-seater cinema and two meeting rooms. There are currently four film related companies occupying offices within the KZN Film Cluster. The KZNFC was able to generate income from the Film Cluster during the 2016/2017 financial year.

Policy Development and Updates

The Finance and Administration Business Unit developed and updated a number of policies during the financial year:

- Asset Disposal Policy
- Revenue Management and Credit Control Policy
- IT Strategy and Governance Policy
- Internship Policy
- Performance Management Policy
- Transformation Policy
- Supply Chain Management Policy
- Human Resource and Development Strategy

The Business Unit was further involved in the arrangement of all the training programmes for the staff during the financial year, which was based on the performance development plans attached to each employee's performance agreement. The specific training programmes attended by staff are listed under the skills development section in the Human Resource Management Report. The Transformation Draft Policy was presented at DIFF and to the industry through workshops. The policy is still at development stages and we are hopeful that it will be resubmitted to the Board in the coming financial year for approval.



PROGRAMME THREE:
Marketing and Industry Development

Marketing and industry development falls under the Chief Operating Officer (COO). The Business Unit is tasked with positioning the KwaZulu-Natal province as a location for film, as well as positioning the KZNFC as a leading film commission in the African market.

Programme Purpose

The main purpose of the COO's Office is to promote the region through appropriate marketing and communication strategies that focus on film industry development through human capital development and investment promotion.

Functions co-ordinated under this programme include:

- Investment promotion on local and international platforms aimed at attracting investment into infrastructure as well as into productions in the region;
- Development and implementation of a marketing strategy aimed at identifying and promoting business with certain countries that are leaders in the film industry;
- Establishment of partnerships and attracting new business and production to KZN;
- Development, management and maintenance of a website and critical stakeholder databases. To assist in facilitating production and employment opportunities for the local industry;
- Human capital development to address the current skills shortages in the film industry from the Province. Coupled with intentions to increased KZN local content on the South African and international distribution platforms;
- Management of the KZN Film Fund;
- Locations identification and production support for the businesses that come to KwaZulu-Natal; and
- Development of the film protocol and guidelines on how to do business in KZN.

Key Performance Indicators, Planned Targets and Actual Achievements

Programme Strategic Objective:

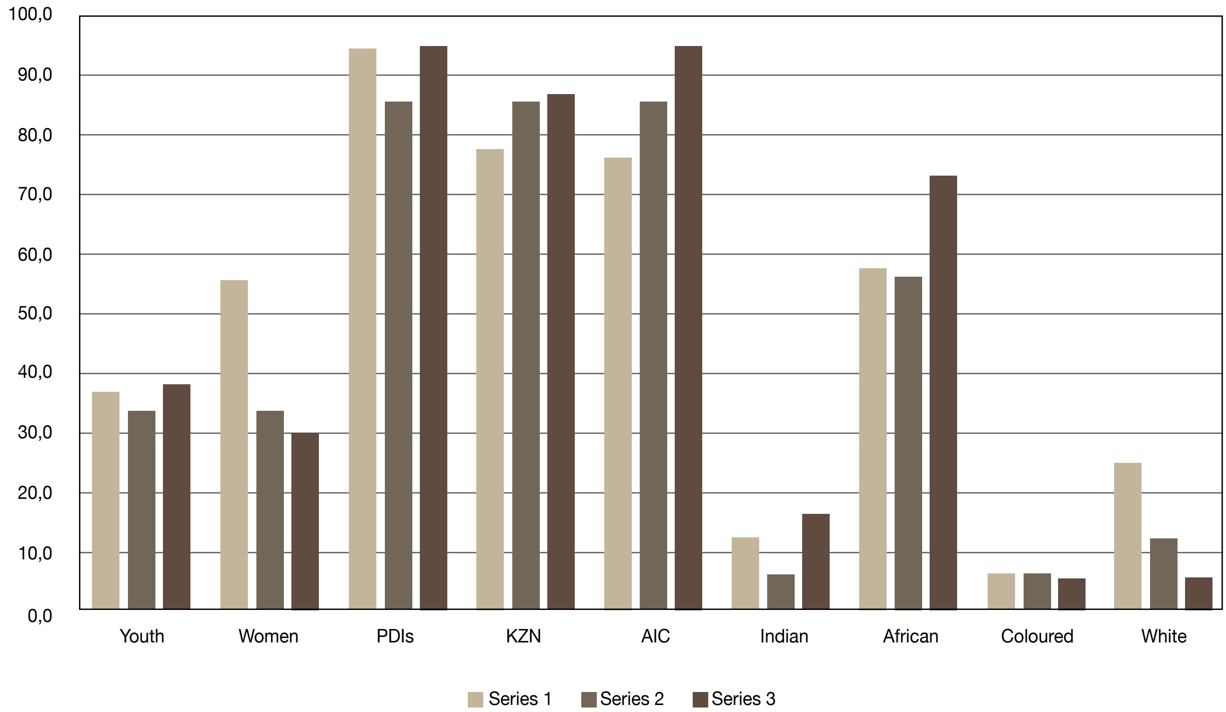
- **To facilitate transformation in the film industry;**
- **To facilitate human capital development in the film industry;**
- **To develop and maintain an efficient regulatory and governance framework for sustained economic development.**
- **To facilitate investment promotion into KZN film industry; and**
- **To promote and market KZN as a choice film destination.**

Performance Indicator	Actual Achievement 2015/2016	Planned Target 2016/2017	Actual Achievement 2016/2017	Deviation from Planned Target to Actual Achievement for 2016/2017	Comment
Number of new businesses supported through incubator programmes focusing on youth and women	13	4	1	-3	During the year a number of SMMEs were supported with training and office facilities, however, the full programme was not realised due to implementation challenges. Only one company remained on the programme throughout the year.
Number of rural township community engagements	New indicator	30	35	+5	The target was exceeded as a result of various partnerships that allowed the KZNFC further access to additional community events
Number of new businesses supported through the incubator focusing on small business	New indicator	5	10	+5	Based on the improved quality of applicants and negotiations with the service provider, additional companies were able to access the programme
Number of people trained through the value chain in the film industry	100	70	0	-70	A review to the training programme based on delays in the accreditation, resulted in the late start in fourth quarter and will be completed in the 2017/2018 financial year
Number of development and productions projects funded through the KZNFC	36	35	35	0	The number of projects approved related directly to the quality of submissions and the amount of funding requested

Production Funding

There were twelve production projects that were completed during the financial year. A budget of R12.8m was utilised during the financial year. The KZNFC entered into a three-year co-production agreement with e.tv, which will increase the number of long-running series that are shot in the KZN province, that way ensuring consistent workflow for KZN filmmakers. In the long run, filmmakers will have the potential of creating permanent employment for the crew members who usually work on a freelance basis. Such opportunities will create stability in the KZN film industry. A similar programme is being negotiated with the other broadcasters.

The following bar chart indicates how the KZNFC has supported different population groups through the film fund.



Legend Key: Series 1 = 2014/2015   Series 2 = 2015/2016   Series 3 = 2016/2017

The depicted information shows that the KZNFC is fulfilling its mandate to support emerging filmmakers from KZN through support to filmmakers from previously disadvantaged backgrounds, and women and youth.

Market and Festival Funding

During the 2016/2017 financial year, KZNFC supported five filmmakers to the Africa International Film Festival (AFRIFF), one filmmaker to each of the following markets: Filmapalooza, Vision Du Reel and Torino Script Lab. A total number of eight filmmakers were supported. This is one of the ways in which the KZNFC is assisting filmmakers to take their products to the market.

Marketing and Distribution Funding

The following projects, amounting to R1,6m, benefitted from financial support in 2016/2017 financial year: KwaZulu-Natal African Film Festival, Ugu Film Festival, Ethekwini Metro Awards, 48 hour Project, Love and Kwaito, Beyond the River, Shwabada, Earth-Beat, Keeping up with the Kandasamys and Afro-explosive.

Film Fund Performance in 2016/2017

In the 2016/2017 financial year, the KZNFC was able to fund 25 development projects and 12 production projects to the tune of R12.8m. During this financial year, the Entity had for the first time a significant number of production projects. These projects included Keeping up with the Kandasamys, (which at the time of writing had earned R16m at the Box Office, a record for a South African film in cinema in the country) Gracie, Family Matters, Royal Assegai, Fragments of Imperfections, Asinamali, The Zulu Returns, 3 Days to Go and Durban Beach Rescue 2. We ensured that these productions were addressing the fundamentals that the Commission is mandated to address through our funding and monitoring policies. These include transformation requirements, skills transfer and contributing to the economic growth of the Province.

Audience Development

Audience development has been added as a new category for funding in 2017/2018. A maximum contribution of R300 000 can be awarded to an audience development initiative. This is a very important initiative as it will assist in growing the audiences for local content and helping the producers of film to begin to start realising a return on the money invested in a film project.

Industry Development Interventions

The KZNFC is aware that the KZN industry is a growing industry that requires support in specific areas. The Commission has several programmes under Human Capital Development where specific training interventions have been identified and implemented to grow the skills of filmmakers in the industry. Over and above this, the Commission has introduced Industry Development Workshops, which take the form of masterclasses. Experts in a particular aspect of film come and present to industry and provide more indepth knowledge with real-life examples, giving filmmakers inside information on an area that they may not otherwise have been exposed to. The workshops are also used as a platform for stakeholders to share up-to-date information on the various initiatives, grants and programmes that they provide.

Skills Development Programmes

A total of **three programmes** were planned for the financial year 2016/2017. These were: Directors Programme; SEDIBA and Technical Training.

SEDIBA Spark Narrative is an introductory course in scriptwriting technique. The course started in March 2017 and it is to run over a five-month period, with a total of **42 participants** completing the course. The Sediba Programme has two groups that are further broken down into four working groups, with each of the four groups per session needing a facilitator.

Directors Programme is a beginners training initiative to develop future directors who are based in the Province. The training programme explained the director's involvement in a project from pre-production to distribution. The programme was implemented in partnership with the NFVF. There were 34 participants when this programme was launched.

Practical Technical Training Programme: A practical technical training programme commenced during the fourth quarter of 2016/2017. The programme was attended by two groups from Durban and Richards Bay. The programme will be completed in the second quarter of 2017/2018 financial year. Also due to costly logistical arrangements, the long-term plan is to offer the course/programme through partnership with TVET colleges in the regions.

Youth in Film Incubation

The contract for Ingomso, which was managing the incubation, expired on 31 March 2017. The project had numerous challenges, which included not being able to finalise its reconciliations for the year. This caused a delay in paying out the final amount for the year. Going forward, the KZNFC and EDTEA agreed that an incubation manager must be appointed before August 2017. Also, the allocated funds for incubation will be opened for both youth and women in the film industry.

MMA Programme

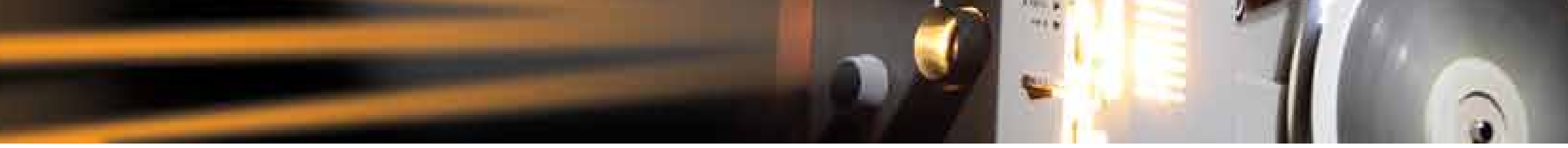
At the end of the last financial year 2016/2017 the MMA programme had 11 companies that were midway their growth path of the first year. The plan is that these companies are to be assisted to graduate to the next level. In coming financial years 2017/2018, the MMA programme will be reviewed to take it to the next level. A new Programme of Action (PoA) will be formulated. The new PoA will take the existing companies through to their next level of growth. In terms of the new proposed PoA, the MMA will also be extended to the beneficiaries of the Film Fund. The MMA programme will act as a quality assurance service that will aim to unblock bottle necks in dealing with funded projects. This will mean the MMA administrators will be working closely with the Production and Development team. A newly conceptualised version of this programme will assist the KZNFC to delivery on Business Video which is one of the legs of the KZN Provincial Film Strategy.

Bursary Scheme

The External Bursary Scheme supports students wishing to study film and television at tertiary institutions in KZN. The 2016/2017 Scheme supported a total of 21 students doing film related courses in the institutions that are operating from KZN.

Human Capital Development Strategy

A Human Capital Development strategy was finalised during the 2016/2017. The business unit has developed an implementation plan that will be executed in the 2017/2018 financial year.



Markets and Festivals

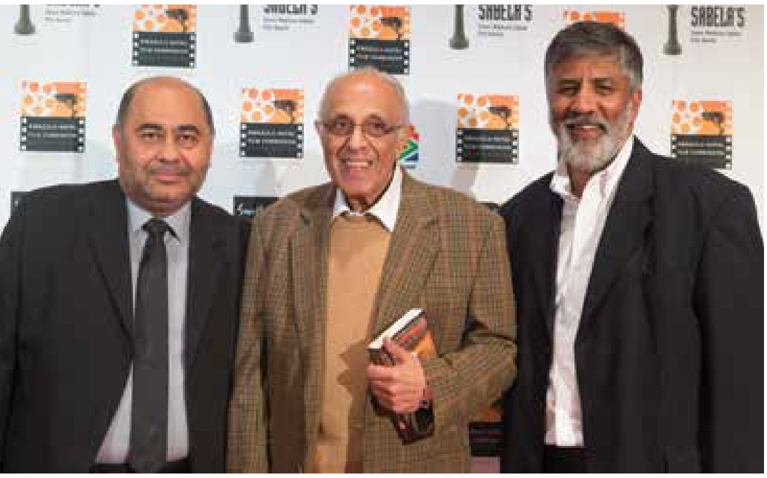
The KZNFC acknowledges the importance of global strategies for promotion at markets and festivals. Markets and festivals therefore become a strategically essential element to engage in order to promote the province as a film destination. As part of the strategy, the following markets have been identified as focus points: Germany, France, United Kingdom, India, Nigeria and USA. Festivals that were attended were: The Association of Film Commissioners International Locations Expo, The Berlin Film Festival's Berlinale, Cannes International Film Festival, India International Film and Tourism Conclave (IIFTC), MIPTV, DISCOP Johannesburg, Durban International Film Festival, and the African International Film Festival.

Simon Sabela Awards

The Simon 'Mabhunu' Sabela Film and Television Awards are in honour of the late Simon 'Mabhunu' Sabela, who was a legend in film and television. The awards are an initiative of KwaZulu-Natal's Department of Economic Development, Tourism and Environmental Affairs and aim to acknowledge and honour talent from the Province. The event, held in July during the Durban International Film Festival, was attended by approximately 500 people. There were 21 categories in contention at the event. The judging processes was conducted by seven judges who are all seasoned filmmakers in their own right. The theme of the event was "To celebrate the spirit of our South African youth on this 40th anniversary of the 1976 Soweto Uprising" with a tribute to Sarafina. The overall cost of the event was R6.4m.

Regulatory Environment

The KZNFC's Act requires stakeholder engagement with local government on a bi-annual basis. This took the form of workshopping the draft film-friendly bylaws in four sessions during the year. Furthermore, the KZNFC participates in the Provincial Tourism and Investment Committee where issues of film policy are discussed to enhance co-ordination and efficiencies. The KZNFC Board approved the transformation policy that will provide strategic programme to drive radical



economic transformation. The current review of the White Paper for the Creative Arts sector has provided the Province (through the KZNFC) an opportunity to submit inputs that will inform future policy development for the sector. A Draft Code of Conduct has been developed and will be workshopped with the industry in the new financial year.

KZN Film Indaba

In March 2017, KZNFC hosted the first Film Indaba in the Province. The event was attended by filmmakers from KZN, key stakeholders who support the film sector in the Province and nationally. The event was officially opened by the MEC S. Zikalala. The Indaba was a two-day event that took the form of presentations that were conducted by the SABC, Department of Trade & Investment (dti), KZNFC, EDTEA, South African Screen Federation and South African Communication Industries Association. On Day two, the Indaba split into commissions that tackled the industry issues of facilities and infrastructure, audience development, transformation, industry co-ordination, training institutions and quality assurance bodies and funding. It was agreed that the Indaba is a strategic gathering that will assist filmmakers and all other roleplayers to come together and discuss the industry holistically and come up with resolutions that will assist to ensure that the film industry in KZN grows. To ensure the continuity of this strategic gathering the KZNFC will publish a report and utilise the industry workshops planned for the year to give feedback to industry on the findings of the Indaba and provide annual status reports.

KZN Facilities and Locations

The Facilities and Locations Business Unit has grown significantly in the last year. The number of enquires lodged to the Commission have grown significantly. The database of facility suppliers and crew members on the database has grown and the Unit has been visiting municipalities across the Province to gain key contacts that can assist with a location enquiry and to explain the mechanisms behind film permit and location facilitation. The Unit also manages the KZNFC film hub with bookings for office space, facilities and equipment.

PART C
GOVERNANCE

Introduction

Corporate governance embodies processes and systems by which public entities are directed, controlled and held to account. In addition to legislative requirements based on a public entity's enabling legislation, corporate governance with regard to public entities is applied through the prescripts of the Public Finance Management Act (PFMA) and run in tandem with the principles contained in the King's Report on Corporate Governance. The principles in the King's Report on Corporate Governance have been used in this report to clarify issues related to leadership, ethics, performance reporting, governance and stakeholder relationships.

Portfolio Committees

The entity reports to the Economic Development, Tourism and Environmental Affairs Portfolio as well as the Finance Portfolio Committee and the Standing Committee on Public Accounts (SCOPA). The KZNFC was invited by various oversight bodies to present its progress on its Annual Performance Plan targets, its Strategic Plan and its Annual Report during the year. The Board attended one Finance Portfolio Committee meeting, and one EDTEA Portfolio Committee meeting as part of oversight meetings.

The Accounting Authority

The Board is appointed in terms of the founding legislation of the KZN Film Commission Act. The membership is clearly defined and the responsibilities of the Board are guided by the principles of good corporate governance, which include:

- To provide strategic direction to the Entity. The Board has a strategic function in providing the vision, mission and goals of the Entity. These are determined in combination with the CEO and the executive team;
- To establish a policy based governance system. The Board has the responsibility of developing a governance system for the business;
- To provide oversight over the performance of the Entity;
- To protect the interests of the shareholder (fiduciary duty); and
- To recruit the CEO.

The details of the Board members appointed by the MEC for EDTEA, including an indication of their attendance at meetings and remuneration paid during the financial year, are contained in the Annual Financial Statements. Refer to page 47 and 50.

Risk Management

The risk management process undertaking during the year provided a strong foundation and focus for the executive team. It has significantly improved the strategic management and corporate governance of the Entity. We believe that strategy, risk performance and sustainable service delivery are inseparable. Quality reviews are undertaken by EXCO and presented to the ARC in terms of quarterly progress made during the year in addressing the risks. A risk register is compiled at the beginning of the financial year. The following six areas were identified as high risks areas for the 2016/2017 financial year:

a) Film industry, coordination and integration

The root causes for this risk has been identified as the following: lack of coordination of various industry players in the Province, key industry players doing their own programmes that are not coordinated from a central point; the KZNFC mandate being carried out by other entities/departments.

b) Durban International Film Festival (DIFF)

The DIFF programme is owned by the University of KwaZulu-Natal. This limits the influence of the KZNFC in this important event that is critical to showcase the film industry in the Province. Also, there is a lack of funding for the DIFF which might affect its long-term impact and strategy.

c) Infrastructure inadequacy

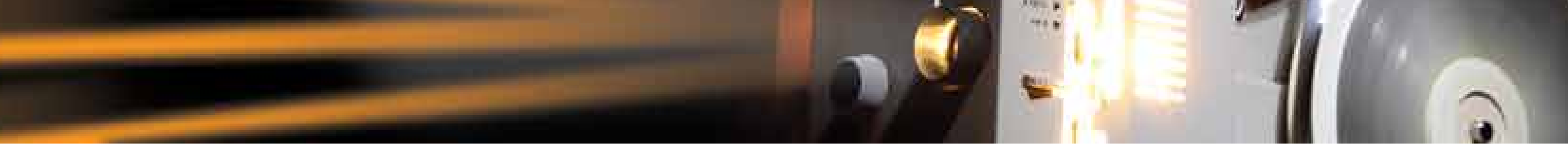
Lack of infrastructure to support film production in the Province has been identified as a high risk. This affects the Province's competitiveness in terms of costs as necessary equipment and resources that are essential for the industry have to be imported from elsewhere.

d) IT business continuity

Information technology is an important business support system to an IT-driven sector like the film industry. Lack of or inadequate IT infrastructure is a high risk to the KZNFC as it becomes unable to compete with the other film commissions in the country in terms of attractiveness for filming and retention of skills in the province.

e) Shortcomings in people's skills

The film industry depends on people with specific skills and expertise to drive it. Research has revealed that there is a



gap between what the tertiary institutions produce and what the industry needs. Also, there are perceptions that the film industry has low returns and it's not profitable as a career. This, therefore, adds to the low number of people who are interested to pursue studies in the sector.

f) Industry transformation

Like in all other sectors, the film sector is riddled with an untransformed history. There are barriers to access resources and funding to balance the playing field. Therefore, there is a need to deliberately target the historically disadvantaged individuals, particularly, youth and women, to bring them into the industry.

The Audit and Risk Committee (ARC) will constantly monitor the roll-out of risk management in order to ensure that the process reaches maturity within a reasonable time. Internal audit will review the progress made to provide further assurance to the Committee that risks are being managed.

Financial Statements

The Audit and Risk Committee

The functions of the ARC are:

- To examine and review the Annual Financial Statements and interim financial reports with management and the external auditors before filing with regulators, and to consider whether such documentation is complete and consistent with information known to members of the Committee and reflects appropriate accounting principles;
- To review with management and external auditors the results of the audit, including any difficulties encountered; and
- To review with management and the external auditors all matters required to be communicated to stakeholders under generally recognised accounting.

Internal Control

During the year under review, the Internal Audit was undertaken by Provincial Treasury. They undertook the following audit assignments, with management implementing all recommendation and actions as agreed with the auditors:

a) Interim and Annual Financial Statements Review
b) Human Resources Management and Development
c) Supply Chain Management
d) Asset Management
e) Performance Information
f) IT General Control Reviews
g) Film Fund Controls
h) S&T Audit
i) Transfers from EDTEA

The Audit and Risk Committee shall:

- Consider the effectiveness of the Entity's internal control system, including information technology security and control;
- Understand the scope of internal and external auditor's review of internal control over financial reporting and obtain reports on significant findings and recommendations together with management's responses;
- Review the effectiveness of the internal control systems;
- Review the control procedures followed by management;
- Review the controls designed to ensure that assets are safeguarded;
- Review the Fraud Prevention Plan implemented to prevent and detect fraud;
- Review risk management and related policies; and
- Review compliance with prescribed accounting framework.

The Annual Report contains a report by the ARC, indicating their assessment of these matters.

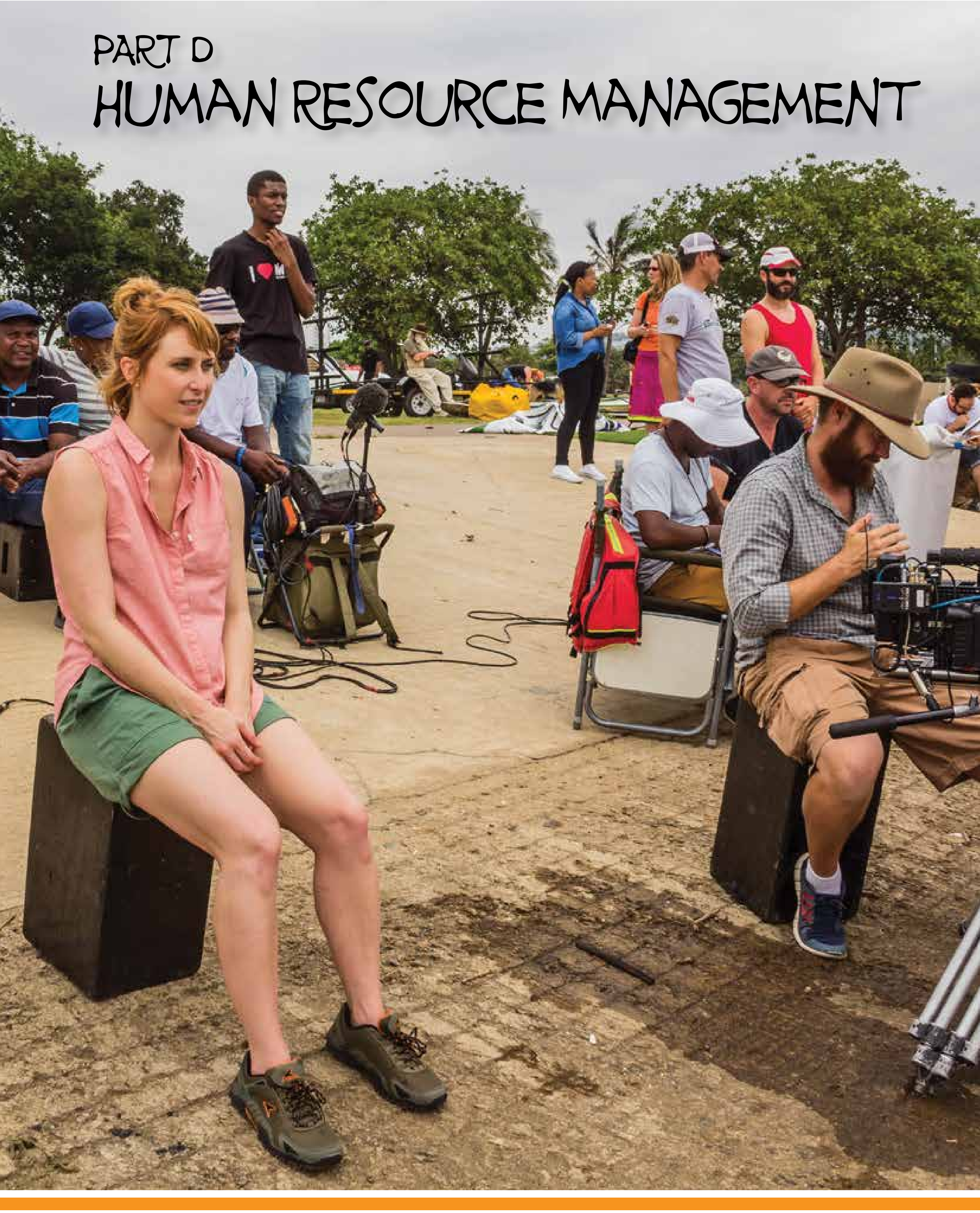
Compliance with Laws and Regulations

The ARC reports must comply with its responsibilities arising from Section 50(1) of the Public Finance Management Act and Treasury Regulations. The ARC shall be responsible for:

- Reviewing the effectiveness of systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up on any instances of non-compliance;
- Reviewing processes for communicating the Code of Conduct to personnel and for monitoring compliance therewith; and
- Obtaining regular updates from management and the Entity's legal counsel regarding compliance matters.

In the coming financial year, the Entity will focus on the monitoring of the Fraud Prevention Plan and systems, and the Ethics Management Programme. The risk assessment will provide the Committee with an overview of the focal points, which will be monitored during the year.

PART D
HUMAN RESOURCE MANAGEMENT



Introduction

The entity KZNFC's approved organogram has 31 posts (two posts are currently outsourced relating to the Legal and Board secretariat). During the year there were a number of resignations and contract employees were recruited to fill the vacancies due to the moratorium on filling of permanent posts until the rationalisation process was completed. There were no disabled staff recruited during the financial year.

In order to provide the leading HR services that attract, sustain and inspire excellence in employees in support of the KZNFC Strategic Plan, the KZNFC Board approved the HR & Development Strategy with its Implementation Plan, which contains interventions that have been prioritised and budgeted for over the Medium-Term Expenditure Framework Budget. The purpose of the strategy will be to ensure that all internal policies and procedures are non-discriminatory and achieve equity and equality, and create an organisational culture where all can reach their full potential.

KZNFC is committed to building a more focused, responsive, and resource conscious and results oriented organisation. An organisational structure review will be undertaken during the 2017/2018 financial year in order to assist in the process.

Human Resource Oversight Statistics

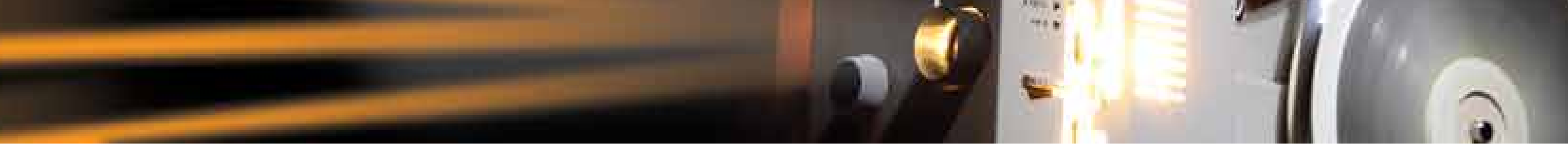
Personnel cost by programme

Programme/Activity/Objective	Total Expenditure for the Entity (R'000)	Personnel Expenditure (R'000)	Personnel Exp. as a % of Total Exp. (R'000)	No. of Employees	Average personnel cost per employee (R'000)
Office of CEO	4 396	1 920	44%	3	640
Marketing and industry development	20 877	1 864	9%	9	207
Finance & administration	12 366	2 252	18%	10	225

Personnel cost by salary band

Level	Personnel Expenditure (R'000)	% of Personnel Exp. to Total Personnel Cost (R'000)	No. of Employees	Average Personnel Cost per Employee (R'000)
Top management	4 432	26%	3	1 477
Senior management	5 459	31%	6	910
Professional qualified	3 833	22%	6	639
Skilled	3 652	21%	11	332
TOTAL	**17 376**	**100%**	**26**	**668**
Internship	242	1%	11	22

Level	Contracted Employees by KZNFC	Contracted via Service Providers	No. of Employees on Contracts	% of Contracts Employees vs Approved Positions
Top management	-	-	-	-
Senior management	-	1	1	3.23%
Professional qualified	1	1	2	6.45%
Skilled	-	-	-	-



Occupational Levels	Designated								Non-designated		Total
	Male				Female				Male	Female	
	African	Coloured	Indian	White	African	Coloured	Indian	White			
Top/senior management	1	-	-	-	1	-	-	1	-	-	3
Professionally qualified and experienced specialists and mid-management	1	-	-	-	2	-	1	-	1	1	6
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	4	-	-	-	5	-	-	-	-	-	9
Semi-skilled and discretionary decision-making	3	-	-	-	6	-	1	-	-	1	11
Unskilled and defined decision-making	-	-	-	-	1	-	-	-	-	-	1
Total permanent	9	-	-	-	15	-	2	1	1	2	30
Temporary employees	2	-	-	-	1	-	-	-	-	-	3
Grand total	**11**	**-**	**-**	**-**	**16**	**-**	**2**	**1**	**1**	**2**	**33**
Equity %	**33%**				**58%**				**3%**	**6%**	**100%**

The equity total includes all employees who worked in the Entity during the year under review, and those who have resigned.

Employment and vacancies

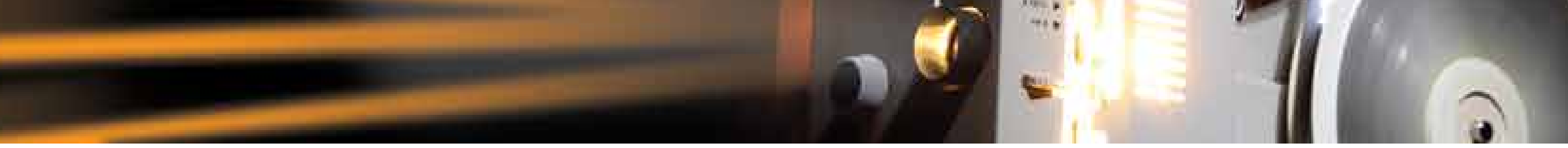
Programme	2015/2016 No. of Employees	2016/2017 Approved Posts	2016/2017 No. of Employees	2016/2017 Vacancies	% of Vacancies
Office of the CEO	4	4	4	0	0%
Marketing and industry development	14	14	14	0	0%
Finance and administration	12	13	8	5	38%

Programme/Activity/Objective	2015/2016 No. of Employees	2016/2017 Approved Posts	2016/2017 No. of Employees	2016/2017 Vacancies	% of Vacancies
Top management	6	3	3	0	0%
Senior management	6	6	6	0	0%
Professional qualified	9	9	6	3	33%
Skilled	12	13	11	2	15%
Total	**30**	**31**	**26**	**5**	**16%**

The Entity was unable to fill their vacant positions due to the provincial moratorium on filling of positions, and therefore the Entity had to source contractors.

Levels	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top/senior management (executives)	3.23%	3%	0%	0%	0%	0%	0%	0%
Professional qualified (managers)	6.45%	3%	0%	3%	0%	0%	0%	0%
Skilled & semi- skilled (specialist & clerical)	16.13%	37%	0%	3%	0%	0.00%	0%	0%
Internships: out of 11 we have 5 African males	5							

Levels	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top/senior management (executives)	3.23%	3%	0%	0%	0%	0%	3.23%	3%
Professional qualified (managers)	9.68%	3%	0%	0%	3.23%	3%	0%	0%
Skilled & semi- skilled (specialists & clerical)	35.48%	36%	0%	0%	3.23%	3%	0%	0%
Internships: Out of 11 we have 6 African females	6							



Summary Target					
Males			Females		
	Target	Actual		Target	Actuals
African male	41.90%	25.81%	African female	38%	48.39%
Coloured male	3.30%	0%	Coloured female	3.30%	0%
Indian male	3.30%	0%	Indian female	3.30%	6.45%
White male	0%	0%	White female	6.50%	3.23%
Overall summary	**49.00%**	**25.81%**		**51.10%**	**58.06%**
Internships: 11	**Males**			**Female**	
African male		**5**	**African female**		**6**

Reasons why Staff are Leaving

Termination Type	Number	% of Total Terminations
Death	0	0
Resignation	5	100%
Expiry of contract	0	0
Dismissal – operational changes	0	0
Dismissal – misconduct	0	0
Dismissal – inefficiency	0	0
Discharged due to ill-health	0	0
Retirement	0	0
Restructuring package (excess)	0	0
Medical retirement	0	0

Disciplinary Action

Occupational Category	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Professional qualified (managers)	0	0	0	0	0	0	1	0	1
Internships	0	0	0	0	1	0	0	0	1
Total	0	0	0	0	1	1	0	0	2

Grievances Logged for Period 1 April 2016 till 31 March 2017

	Number	% of Total
Number of grievances resolved	0	0
Number of grievances unresolved	0	0
Total number of grievances addressed	0	0

Training Provided for Period 1 April 2016 to 31 March 2017

Occupational Categories	Gender		Number of Employees	Skills Programmes	Totals
	Male	Female			
Top/senior management (executives)	1		1	SCM training public entities	1
Professional qualified (managers)		1	1	Registry and records	1
		2		SCM training public entities	2
	1		1	Job management; Employee management and HR report customisation	1
Skilled and semi-skilled (specialist & clerical)		1	1	Web design (Adobe Dreamweaver)	
	2	1		SCM training public entities	3
			1	Job Management; Employee Management and HR report customisation	1
		1	1	Registry and records	1
		2	2	Skills development facilitator	2
		1	1	PowerPoint training	1
		3	3	Report writing	3
		1	1	Communication strategy	1
	1	1	2	Monitoring and evaluation	2
		1	1	Assessor training	1
		1	1	Strategic events management	1
		1	1	Business writing skills	1
	1		1	Information technology infrastructure/library	1
		1	1	Excel level 1 & 2	1
		1	1	Business communication	1
	1		1	Annual tax seminar	1
		1	1	Moderator	1
Internships	1		1	Basic payroll	1
	1		1	Leave administration	1
	1		1	Advanced Excel	1
	1	2	3	Business writing skills	3
	1		1	MSCA (Server 2012)	1
	1		1	PowerPoint training	1
		1	1	Assessor training	1
	1		1	Payroll Pro	1
		1	1	Skills development facilitator	1
	1		1	Job management; Employee management and HR report customisation	1
	1	2		SCM training public entities	3
All Finance team	IFRS and GRAP update				
All staff	Leadership development				

In pursuit of the principle of life-long learning, to develop the professional capacity of employees and to improve service delivery, KZNFC arranged the above mentioned training programmes. The training programmes developed staff capacity so that the organisation could execute its mandate. The total amount spent on staff training for the period ending March 2017 was R799 848.00.

PART E
FINANCIAL INFORMATION

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	To promote and market the Province as a global destination for film production, funding of projects and skills development.
Registered office	10th Floor, Musgrave Towers 115 Musgrave Road Durban 4001
Bankers	ABSA
Auditors	Auditor-General of South Africa Registered Auditors

KwaZulu-Natal Film Commission

Financial Statements

for the year ended 31 March 2017

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

REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL LEGISLATURE ON KWAZULU-NATAL FILM COMMISSION

Report on the Audit of the Financial Statements

Opinion

1. I have audited the financial statements of the KwaZulu-Natal Film Commission (KZNFC) set out on pages 55 to 91, which comprise the Statement of Financial Position as at 31 March 2017, and the Statement of Financial Performance, Statement of Changes in Net Assets, and Cash Flow Statement and the Statement of Comparison of Budget and Actual Information for the year then ended, as well as the Notes to the Financial Statements, including a summary of significant Accounting Policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the KwaZulu-Natal Film Commission as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the financial statements' section of my report.

4. I am independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Responsibilities of the accounting authority for the financial statements

6. The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the 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.

7. In preparing the financial statements, the accounting authority is responsible for assessing the KZNFC's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the Entity or cease operations, or there is no realistic alternative but to do so.

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

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

9. A further description of my responsibilities for the audit of the financial statements is included in the Annexure to the Auditor's Report.

Report on the Audit of the Annual Performance Report

Introduction and scope

10. 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 material findings on the reported performance information against predetermined objectives for selected programmes presented in the Annual Performance Report. I performed procedures to identify findings but not to gather evidence to express assurance.

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

12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the marketing and industry development programme presented on pages 27 to 32 in the Annual Performance Report of the Entity for the year ended 31 March 2017.

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

14. I did not identify any material findings on the usefulness and reliability of the reported performance information for the marketing and industry development programme.

Other matter

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

Achievement of planned targets

16. The annual performance report on pages 14 to 33 includes information on the achievement of planned targets for the year, and explanations are also provided therein for the underachievement of three targets.

Report on Audit of Compliance with Legislation

Introduction and scope

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

18. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Other Information

19. The KZNFC's accounting authority is responsible for the other information. The other information comprises the information included in the Annual Report, which includes the Accounting Authority's Report and the Audit Committee's Report. The other information does not include the financial statements, the Auditor's Report thereon and the selected programme presented in the Annual Performance Report, which have been specifically reported on in the Auditor's Report.

20. My opinion is on the financial statements and do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

21. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programme presented in the Annual Performance Report, or if my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this Auditor's Report, I conclude that if there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal Control Deficiencies

22. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation, however, my objective was not to express any form of assurance thereon. I did not identify any significant deficiencies in internal control.

Auditor-General

Pietermaritzburg

26 July 2017

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure: Auditor-General's Responsibility for the Audit

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

Financial Statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
   - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
   - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
   - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors, which constitutes the accounting authority.
   - Conclude on the appropriateness of the Board of Directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the KZNFC's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my Auditor's Report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the Auditor's Report. However, future events or conditions may cause an entity to cease to continue as a going concern.
   - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those Charged with Governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.

BOARD MEMBERS' RESPONSIBILITIES AND APPROVAL

The Board members are required by the Public Finance Management Act, 1 of 1999 (PFMA), to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the Board members to ensure that the 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 financial statements and were given unrestricted access to all financial records and related data.

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

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

The Board members acknowledge 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 Board members to meet these responsibilities, the Board members set 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 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 Board members are 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

Going Concern

The Board members have reviewed the Entity's cash flow forecast for the 12 months to 31 March 2018 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.

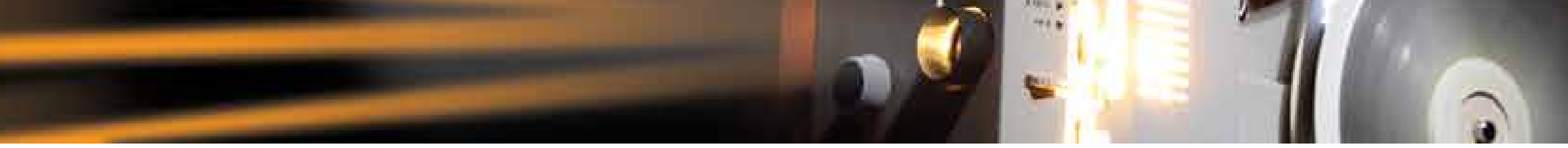
The Entity is wholly dependent on the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA) for continued funding of operations. The financial statements are prepared on the basis that the Entity is a going concern and that the EDTEA has neither the intention nor the need to liquidate or curtail materially the scale of the operations of the Entity.

The external auditors are responsible for independently reviewing and reporting on the Entity's financial statements.

The Annual financial statements set out on pages 55 to 91, which have been prepared on the going concern basis, were approved by the Board members on 25 May 2017 and were signed on its behalf by:

Welcome Msomi
Board Chairman

Carol Coetzee
Chief Executive Officer



AUDIT AND RISK COMMITTEE REPORT

We are pleased to present our report for the financial period of year ended 31 March 2017.

Audit and Risk Committee Members and Attendance

The Audit and Risk Committee consists of the members listed hereunder and should meet four times per annum as per its approved terms of reference. Members met four times during the year under review.

Name of member	Number of meetings attended
N. Khoza	4
Z. Gwala	3
D. Ramuedzisi (independent sub-committee member)	4
P. Raleigh (appointed 27/07/2016)	2

Audit and Risk Committee Responsibility

The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 38(10)(1) of the Public Finance Management Act (PFMA) and Treasury Regulation 3.1. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The Effectiveness of Internal Control

The system of internal controls applied by the Entity over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King III Report on Corporate Governance Requirements, Internal Audit provides the Audit and Risk Committee and Management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions suggested, and enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the financial statements and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The Audit and Risk Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the members of the Entity during the year under review.

Evaluation of Financial Statements

The Audit and Risk Committee has:

- Reviewed and discussed the audited financial statements to be included in the report, with the Auditor-General and the members;
- Reviewed the Auditor-General of South Africa's management report and management's response thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed the Entity's compliance with legal and regulatory provisions; and
- Reviewed significant adjustments resulting from the audit.

The Audit and Risk Committee concurs with and accepts the Auditor-General of South Africa's report on the financial statements, and are of the opinion that the audited Annual Financial Statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal Audit

The Audit and Risk Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the Entity. Risk-based audits were conducted to ensure sound internal controls were implemented during the year under review. A challenge was experienced with financial capacity constraints, which resulted in delays in internal audit reports for the year. A review of the function will be undertaken.

Auditor-General of South Africa

The Audit and Risk Committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

N. Khoza
Chairperson of the Audit Committee

BOARD MEMBERS' REPORT

The Board members submit their report for the year ended 31 March 2017.

1. Incorporation

The Entity was incorporated on 9 September 2010. The KwaZulu-Natal Film Commission (KZNFC) commenced its operations on 1 October 2013.

2. Review of Activities

Main business and operations

The Entity is engaged in promoting and marketing the Province as a global destination for film production and operates principally in South Africa. A full report on the achievements for the year under review are included in the CEO's report.

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

Net surplus of the Entity was R3 968 733 (2016: deficit R2 444 584). The objectives, as defined by the KwaZulu-Natal Film Commission Act, No. 3 of 2010 are:

- To promote and market the Province as a global destination for film production;
- To develop, promote and market, locally, nationally and internationally, the film industry in the Province;
- To facilitate investment in the film industry in the Province;
- To provide and encourage the provision of opportunities for persons, especially from disadvantaged communities, to enter and participate in the film industry in the Province;
- To address historical imbalances in the infrastructure and in the distribution of skills and resources in the film industry in the Province; and
- To contribute to an enabling environment for job creation in the film industry in the Province.

3. Going Concern

The Board members have assessed the going concern of the Entity as at 31 March 2017. The Entity has an accumulated surplus of R22 906 108 and the Entity's total assets exceed its liabilities by R22 906 108.

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

4. Subsequent Events

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

5. Board Members' Interest in Contracts

Members of the Board declared any conflict of interest during the meetings. As at 31 March 2017, no interest or conflict of interests were recorded.

6. Accounting Policies

The financial statements are prepared in accordance with the South African GRAP, including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of GRAP issued by the Accounting Standards Board as the prescribed framework by National Treasury.

Members' Report (continued)

7. Members

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

Name	Designation	Date of Appointment
W. Msomi	Chairperson	1 February 2013
B.N. Malange	Deputy Chairperson	1 February 2013
L. Berning	Human Resource and Remuneration Committee Chairperson	1 February 2013
N. Khoza	Audit and Risk Committee Chairperson	1 February 2013
Z. Gwala	Member	1 February 2013
M. Mzimela	Member	1 February 2013
N. Mthembu	Member	1 February 2013
P. Raleigh	Member	1 February 2013
C.L. Coetzee	Executive Member	1 October 2013
Executive management		
C.L. Coetzee	Chief Executive Officer	1 October 2013
K. Bogatsu	Chief Financial Officer	1 February 2014
J.M. Japal	Chief Operations Officer	1 February 2014

8. Secretary

The Company House Secretarial Services provided secretarial services for the year under review.

9. Members' Meetings

Chairperson and Chief Executive Officer

The Chairperson is a non-executive and independent member of the Board as defined by the PFMA and the Code of Good Corporate Governance.

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion in line with the Board Charter.

Board meetings

The members of the Board are scheduled to meet at least four times per annum.

Non-executive members of the Board have access to all members of management of the Entity.

Five Board meetings were was held on 1/12/2016.

Name	19/04/2016	26/05/2016	26/07/2016	25/10/2016	1/12/2016	2/12/2016
Mr W. Msomi	Yes	Yes	Yes	Yes	Yes	Yes
Ms B.N. Malange	Yes	Yes	Yes	Yes	Yes	Yes
Mr N. Khoza	No	Yes	Yes	Yes	No	Yes
Ms L. Berning	Yes	Yes	Yes	Yes	Yes	Yes
Mr P. Raleigh	Yes	Yes	Yes	Yes	Yes	Yes
Mr Z. Gwala	Yes	Yes	Yes	No	Yes	No
Mr M. Mzimela	No	Yes	Yes	Yes	Yes	Yes
Ms N. Mthembu	Yes	Yes	Yes	Yes	Yes	Yes
Ms C. Coetzee	Yes	Yes	Yes	Yes	Yes	Yes

Members' Report (continued)

Audit and Risk Committee

For the period under review the Chairperson of the Audit and Risk Committee was Mr N. Khoza (Non-executive Member of the Board). The committee met in line with the requirements of the KZNFC audit charter to review matters necessary to fulfil its role.

The Entity has outsourced its Internal Audit function to KwaZulu-Natal Provincial Treasury Internal Audit, who provided the service in the period under review, in line with the approved annual audit plan.

Four meetings were held during this period.

Name	23/05/16	21/07/16	14/11/16	30/03/17
N. Khoza	Yes	Yes	Yes	Yes
Z. Gwala	Yes	Yes	Yes	No
D. Ramuedzisi (independent sub-committee member)	Yes	Yes	Yes	Yes
P. Raleigh (appointed on 27/07/2016)	N/a	N/a	Yes	Yes

Human Resource and Remuneration Committee

For the period under review, the Chairperson of the Human Resource and Remuneration Committee was Ms L. Berning (Non-executive Board member).The Committee met in line with the requirements of the KZNFC terms of reference to review matters necessary to fulfil its role.

Four meetings were held during this period.

Name	25/05/16	13/06/16	15/11/16	22/03/17
L. Berning	Yes	Yes	Yes	Yes
M. Mzimela	Yes	Yes	Yes	Yes
B.N. Malange	Yes	Yes	Yes	Yes
K. Simelane (independent sub-committee member)	Yes	Yes	Yes	Yes

10. Bankers

Amalgamated Banks of South Africa (ABSA)

11. Auditors

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

Statement of Financial Position as at 31 March 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current assets			
Receivables from exchange transactions	3	2 503	-
Receivables from non-exchange transactions	4	163 932	38
Cash and cash equivalents	5	20 441 230	20 364 719
Prepayments	6	369 063	3 325 458
		20 976 728	**23 690 215**
Non-current Assets			
Property plant and equipment	7	8 465 030	4 717 379
Intangible assets	8	216 343	489 466
		8 681 373	**5 206 845**
Total Assets		**29 658 101**	**28 897 060**
Liabilities			
Current liabilities			
Finance lease obligation	9	-	65 653
Payables from exchange transactions	10	6 698 980	9 699 707
Payables from non-exchange transactions	11	53 013	190 161
		6 751 993	**9 955 521**
Non-current liabilities			
Finance lease obligation	9	-	4 164
Total liabilities		**6 751 993**	**9 959 685**
Net assets		**22 906 108**	**18 937 375**
Accumulated surplus		22 906 108	18 937 375
Total liabilities and net assets		**29 658 101**	**28 897 060**

• Prior year has been restated – refer to Note 35

Statement of Financial Performance for year ended 31 March 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Rendering of services	12	282 777	-
Rental of facilities and equipment	13	239 430	-
Interest received – investment	14	1 672 666	1 396 550
Other income	15	106 646	83 443
Total revenue from exchange transactions		**2 301 519**	**1 479 993**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants and subsidies	16	71 772 000	64 657 500
Total revenue		**74 073 519**	**66 137 493**
Expenditure			
Board and Committee members costs	17	(1 044 074)	(953 238)
Employee related costs	18	(19 279 227)	(17 305 910)
Finance costs	19	(1 786)	(371)
Marketing and projects	20	(12 832 118)	(15 750 275)
Depreciation and amortisation	21	(2 227 136)	(1 658 954)
Operating expenses	22	(13 516 488)	(9 278 856)
Audit fees	23	(789 514)	(828 194)
Production and development costs	24	(19 563 684)	(21 554 140)
Research and development	25	(666 527)	(1 212 380)
Total expenditure		**(69 920 554)**	**(68 542 318)**
Operating surplus (deficit)		**4 152 965**	**(2 404 825)**
Loss on assets written off	7	(184 233)	(39 758)
Surplus (deficit) for the year		**3 968 732**	**(2 444 583)**

• Prior year has been restated refer to Note 35

Statement of Changes in Net Assets for the year ended 31 March 2017

Figures in Rand	Accumulated Surplus	Total Net Assets
Balance at 1 April 2015	**21 381 959**	**21 381 959**
Changes in net assets		
Loss for the year	(2 444 584)	(2 444 584)
Total changes	**(2 444 584)**	**(2 444 584)**
Opening balance as previously reported	18 770 888	18 770 888
Adjustments		
Prior year adjustments	166 487	166 487
Restated* balance at 1 April 2016 as restated*	**18 937 375**	**18 937 375**
Changes in net assets		
Surplus for the year	3 968 733	3 968 733
Total changes	3 968 733	3 968 733
Balance at 31 March 2017	**22 906 108**	**22 906 108**

• Prior year has been restated refer to Note 35

Cash Flow Statement for the year ended 31 March 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Grants		71 772 000	64 657 500
Interest received – investment		1 672 666	1 396 550
Other receipts		401 773	83 433
		73 846 439	66 137 483
Payments			
Employee costs		(19 011 642)	(15 864 514)
Finance costs		(1 786)	(371)
Other payments		(48 800 788)	(47 707 390)
		(67 814 216)	(63 572 275)
Net cash flows from operating activities	26	**6 032 223**	**2 565 208**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(5 861 961)	(3 719 272)
Purchase of other intangible assets	8	(23 934)	(49 032)
Net cash flows from investing activities		**(5 885 895)**	**(3 768 304)**
Cash flows from financing activities			
Finance lease payments		(69 817)	(60 283)
Net increase/(decrease) in cash and cash equivalents		76 511	(1 263 379)
Cash and cash equivalents at the beginning of the year		20 364 719	21 628 098
Cash and cash equivalents at the end of the year	5	**20 441 230**	**20 364 719**

• Prior year has been restated refer to Note 35

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
Figures in Rand	**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						
Rendering of services	-	-	-	282 777	**282 777**	39.1
Rental of facilities and equipment	-	-	-	239 430	**239 430**	39.2
Other income	-	-	-	106 646	**106 646**	39.3
Interest received – investment	-	-	-	1 672 666	**1 672 666**	39.4
Total revenue from exchange transactions	**-**	**-**	**-**	**2 301 519**	**2 301 519**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants and subsidies	68 211 001	3 561 000	**71 772 001**	71 772 000	(1)	
Roll-over funds 2015/2016	-	20 364 071	**20 364 071**	20 364 071	-	
Total revenue from non-exchange transactions	**68 211 001**	**23 925 071**	**92 136 072**	**92 136 071**	**(1)**	
Total revenue	**68 211 001**	**23 925 071**	**92 136 072**	**94 437 590**	**2 301 518**	

Statement of Comparison of Budget and Actual Amounts (continued)

Budget on Cash Basis						
Figures in Rand	Approved Budget	Adjustments	Final Budget	Actual Amounts on Comparable Basis	Difference between Final Budget and Actual	Reference
Expenditure						
Employee related costs	(20 127 989)	808 602	**(19 319 387)**	(19 279 227)	**40 160**	39.5
Board and Committee members costs	(1 456 540)	162 597	**(1 293 943)**	(1 044 074)	**249 869**	39.6
Depreciation and amortisation	-	-	**-**	(2 227 136)	**(2 227 136)**	39.7
Finance costs	-	–	**-**	(1 786)	**(1 786)**	
Research and development	(825 408)	82 098	**(743 310)**	(666 527)	**76 783**	39.8
Production and development funding	(20 035 042)	(10 498 080)	**(30 533 122)**	(19 563 684)	**10 969 438**	39.9
Audit fees	(850 000)	53 126	**(796 874)**	(789 514)	**7 360**	
Marketing and projects	(12 500 000)	(1 370 040)	**(13 870 040)**	(12 832 118)	**1 037 922**	39.10
Operating expenses	(11 846 827)	(8 372 807)	**(20 219 634)**	(13 516 488)	**6 703 146**	39.11
Total expenditure	**(67 641 806)**	**(19 134 504)**	**(86 776 310)**	**(69 920 554)**	**16 855 756**	
Operating surplus	**569 195**	**4 790 567**	**5 359 762**	**24 517 036**	**19 157 274**	
Loss on assets written off	-	-	**-**	(184 233)	**(184 233)**	39.12
Surplus for the year from continuing operations	**569 195**	**4 790 567**	**5 359 762**	**24 332 803**	**18 973 041**	
Capex	(569 195)	(4 790 567)	**(5 359 762)**	(5 885 896)	**(526 134)**	
Actual amount on comparable basis as presented in the budget and actual comparative statement	**-**	**-**	**-**	**18 446 907**	**18 446 907**	

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of GRAP, issued by the Accounting Standards Board in accordance with Section 122(3) of the Public Finance Management Act, 1 of 1999 (PFMA).

These 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.

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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.

1.3 Comparative figures

Current year comparatives (Budget)

Budget information in accordance with GRAP 1 and 24, has been complied with, and the detailed budget will be attached to the Annual Financial Statements.

Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and/or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

1.4 Significant judgements and sources of estimation uncertainty

The use of judgment, estimates and assumptions is inherent to the process of preparing Annual Financial Statements. These judgements, estimates and assumptions affect the amounts presented in the Annual Financial Statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential

1.4 Significant judgements and sources of estimation uncertainty (continued)

outcomes are for a provision as well as the financial impact of each of those potential outcomes. Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions.

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the Entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

Impairments of non-financial assets

In testing for, and determining the value in use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash generating assets). For non-cash generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

1.5 Financial instruments

Initial recognition and measurement

The Entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the Entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition, the Entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests, as the case may be.

Initial measurement

When a financial instrument is recognised, the Entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

Impairment of financial assets

All financial assets measured at amortised cost, or cost, are subject to an impairment review. The Entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

1.5 Financial instruments (continued)

For financial assets held at amortised cost

The Entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed, either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

For financial assets held at cost

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

Derecognition

These financial assets are classified as loans and receivables.

A financial asset is derecognised at trade date, when:

a) The cash flows from the asset expire, are settled or waived;
b) Significant risks and rewards are transferred to another party; or
c) Despite having retained significant risks and rewards, the Entity has transferred control of the asset to another Entity.

A financial liability is derecognised when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where the terms of an existing financial liability are modified, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

Receivable from exchange and non-exchange transactions

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

1.5 Financial instruments (continued)

Payables from exchange and non-exchange transactions

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

Gains and losses

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

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

Offsetting

The Entity does not offset financial assets and financial liabilities in the Statement of Financial Position except where offsetting is required or permitted by GRAP.

1.6 Property, plant and equipment

Initial recognition and measurement

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- It is probable that future economic benefits or service potential associated with the item will flow to the Entity; and
- The cost of the item can be measured reliably.

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

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

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost where acquired through exchange transactions. However, when items of property, plant and equipment are acquired through non-exchange transactions, those items are initially measured at their fair values as at the date of acquisition.

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

1.6 Property, plant and equipment (continued)

Subsequent measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Subsequent expenditure

Where the Entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequent expenditure, including major spare parts and servicing equipment, qualify as property, plant and equipment if the recognition criteria are met.

Depreciation

Depreciation is calculated on the depreciable amount, using the straight line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciable amount is determined after taking into account an assets' residual value, where applicable.

The assets' residual values, useful lives and depreciation methods are reviewed at each financial year end and adjusted prospectively, if appropriate.

The annual depreciation rates are based on the following estimated asset useful lives:

Item	Average useful life
Leasehold improvements	5 years (lease period)
Furniture and fixtures	6 years
Finance lease assets	2 years
Office equipment	5 years
IT equipment	3 years
Production and development equipment	3 years
Cellphones device	2 years

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the Entity to amend the previous estimate unless expectations differ from the previous estimate.

Impairments

The Entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

1.6 Property, plant and equipment (continued)

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.7 Intangible assets

Initial recognition and measurement

An intangible asset is an identifiable non-monetary asset without physical substance. The Entity recognises an intangible asset in its Statement of Financial Position only 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.

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.

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

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

a) The Entity intends to complete the intangible asset for use or sale;
b) It is technically feasible to complete the intangible asset;
c) The Entity has the resources to complete the project;
d) It is probable that the Entity will receive future economic benefits or service potential; or
e) The Entity has the ability to measure reliably the expenditure during development.

Where an intangible asset is acquired by the Entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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

Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments.

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

1.7 Intangible assets (continued)

Following initial recognition of the development expenditure as an asset, the cost model is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in Statement of Financial Performance in the expense category consistent with the function of the intangible asset. During the period of development, the asset is tested for impairment annually.

Amortisation and impairment

Amortisation is charged to write off the cost of intangible assets over their estimated useful lives using the straight line method. 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, other	3 years

The amortisation period, the amortisation method and residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

Impairments

The Entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Employee benefits

Short-term employee benefits

Short-term employee benefits encompass all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short-term employee benefits include remuneration, compensated absences and bonuses.

Short-term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short-term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Post-employment benefits

The Entity operates a defined contribution plan in the form of a provident fund scheme, covering all qualifying employees. The assets of the scheme are held separately from those of the Entity and are administered by the scheme's trustees. The Entity's contributions to the defined contribution fund are included in the staff costs and charged to the Statement of Financial Performance during the year to which they relate.

1.9 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrues to the Entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

Accounting Policies (continued)

Recognition

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

a) The Entity retains neither continuing;
b) The amount of revenue can be measured; or
c) It is probable that the economic benefits or service potential associated with the transaction will flow to the Entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the Entity acts as an agent on behalf of another Entity (the principal) is limited to the amount of any fee or commission payable to the Entity as compensation for executing the agreed services.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Expenditure from exchange transactions

The accounting policy for expenditure arising from exchange transactions is similar to the policy for exchange revenue.

1.10 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions.

Revenue from a non-exchange transaction arises when the 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.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Specific non-exchange revenue sources

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or, where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualify for recognition and first become available for use by the Entity. Where public contributions have been received but the Entity has not met the related conditions that would entitle it to the revenue, a liability is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualify for recognition and first become available for use by the Entity.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

Measurement

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

1.10 Revenue from non-exchange transactions (continued)

Expenditure relating to non-exchange

The accounting policy for expenditure arising from non-exchange transactions is similar to policy for non-exchange revenue.

Government grants

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the Entity;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

The Entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which ever is earlier.

When government remits grants on a reimbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the Entity;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

If goods in kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.11 Surplus and deficit

Gains and losses

Gains and losses arising from fair value adjustments on investments and loans, and from the disposal of assets, are presented separately from other revenue in the Statement of Financial Performance.

Income, expenditure, gains and losses are recognised in surplus or deficit except for the exceptional cases where recognition directly in net assets is specifically allowed or required by a Standard of GRAP.

1.12 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;
(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):

Accounting Policies (continued)

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 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.

1.13 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure that was made in vain and could have been avoided, had reasonable care been exercised.

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

1.14 Recovery of unauthorised, irregular, fruitless and wasteful expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, and is recognised when the recovery thereof from the responsible officials is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income.

1.15 Related parties

The Entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the provincial sphere of government are considered to be related parties.

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

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

Related parties are disclosed in terms of GRAP 20.

Accounting Policies (continued)

1.16 Events after reporting date

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

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

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

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

1.17 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.

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.

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.

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.

Employee entitlement to annual leave is recognised when it accrues. A provision is made on the estimated liability for annual leave as a result of services rendered by employees up to the amount of the obligation.

1.18 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

1.17 Provisions and contingencies (continued)

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the Entity, therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.19 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 and reduced on the outstanding liability. The Entity does not enter into finance leases that attract finance charges.

Operating leases – lessee

Operating lease payments are recognised as an expense in the Statement of Financial Performance.

1.20 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Accounting Policies (continued)

1.21 Budget information

Entities are 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.

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

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

The approved budget covers the fiscal period from 01 April 2016 to 31 March 2017.

The budget for the economic Entity includes all the entities approved budgets under its control.

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

Notes to the Financial Statements

Figures in Rand	2017	2016

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

The Entity had chosen to early adopt the following standards and interpretations in the previous financial year which are effective in the year under review.

• GRAP 20: Related parties	1 April 2016	The impact of the amendment is not material
• GRAP 108: Statutory receivables	1 April 2016	The impact of the amendment is not material.
• IGRAP 17: Service concession arrangements where a grantor controls a significant residual interest in an asset	1 April 2016	The impact of the amendment is not material.
• Directive 12: The selection of an appropriate reporting framework by public entities	1 April 2018	The impact of the amendment is not material.

3. Receivables from exchange transactions

	2017	2016
Sundry debtors	2 503	-

Sundry debtors relates to R680 receivable for the hire of production equipment from Lopper Media and R1 823 for production equipment that was purchased from First Technologies but hasn't been delivered.

4. Receivables from non-exchange transactions

	2017	2016
Pay As You Earn (PAYE)	163 932	38

Based on the Income Tax no 58 of 1962 any public service employer in the national or provincial sphere of government is exempted from paying SDL (Skills Development Levy) – such employers must only budget for an amount equal to training and education of the employees. KZNFC was not supposed to remit amounts for SDL. To date of reporting, an amount of R112 786 had been inadvertently remitted to SARS. This has been claimed back and SARS has acknowledged its obligation. Over-remittances of R51 146 were made between March and May 2016. These were also acknowledged by SARS. The agreement to deduct against future dues has not yet been signed off, hence the amount shows a receivable.

5. Cash and cash equivalents

	2017	2016
Cash and cash equivalents consist of:		
Cash on hand	449	648
Bank balances	1 939 188	516 378
Call account	18 501 593	19 847 693
	20 441 230	**20 364 719**

At the end of period, the carrying amounts of cash and cash equivalents approximated their fair values due to the short-term maturities of these assets. The total cash and cash equivalents balance of R20.4 million was fully committed as at 31 March 2017.

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016

6. Prepayments

	2017	2016
Prepayments	369 063	3 325 458
Subscriptions and services	42 434	1 503
Rental	228 441	289 256
IT costs	98 188	32 391
Marketing	-	3 002 308
	369 063	**3 325 458**

Prepayments comprise of subscriptions office equipment and payments for IT costs relating to server maintenance.

7. Property plant and equipment

	2017			2016		
	Cost/ Valuation	Accumulated Depreciation and Accumulated Impairment	Carrying Value	Cost/ Valuation	Accumulated Depreciation and Accumulated Impairment	Carrying Value
Furniture and fixtures	3 905 916	(440 793)	3 465 123	739 592	(222 509)	517 083
Finance lease assets	-	-	-	166 835	(104 327)	62 508
Office equipment	230 559	(47 815)	182 744	112 727	(15 658)	97 069
IT equipment	2 292 510	(1 708 887)	583 623	2 476 148	(1 562 523)	913 625
Leasehold improvements	3 433 766	(527 961)	2 905 805	1 840 590	(30 677)	1 809 913
Production and development equipment	1 952 656	(624 921)	1 327 735	851 777	(190 718)	661 059
Cellphone devices	-	-	-	19 549	(3 249)	16 300
Work-in-progress	-	-	-	639 822	-	639 822
Total	**11 815 407**	**(3 350 377)**	**8 465 030**	**6 847 040**	**(2 129 661)**	**4 717 379**

Reconciliation of property plant and equipment – 2017

	Opening Balance	Additions	Depreciation	Impairment Loss/Loss on Write-off	Total
Furniture and fixtures	517 083	3 368 834	(307 420)	(113 374)	3 465 123
Finance lease assets	62 508	-	(47 763)	(14 745)	-
Office equipment	97 069	117 832	(32 157)	-	182 744
IT equipment	913 625	321 062	(601 476)	(49 588)	583 623
Leasehold improvements	1 809 913	1 593 176	(497 285)	-	2 905 804
Production and development equipment	661 059	1 100 879	(434 203)	-	1 327 735
Cellphone devices	16 300	-	(9 774)	(6 526)	-
Work-in-progress	639 822	(639 822)	-	-	-
	4 717 379	**5 861 961**	**(1 930 078)**	**(184 233)**	**8 465 029**

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – 2016

	Opening Balance	Additions	Depreciation	Loss on Disposal	Total
Furniture and fixtures	402 428	236 379	(121 724)	-	517 083
Finance lease assets	130 101	27 779	(81 170)	(14 202)	62 508
Office equipment	56 152	67 118	(11 382)	(14 819)	97 069
IT equipment	1 712 339	36 258	(824 235)	(10 737)	913 625
Leasehold improvements	-	1 840 590	(30 677)	-	1 809 913
Production and development equipment	-	851 777	(190 718)	-	661 059
Cellphone device	-	19 549	(3 249)	-	16 300
Work-in-progress	-	639 822	-	-	639 822
	2 301 020	**3 719 272**	**(1 263 155)**	**(39 758)**	**4 717 379**

The impairment loss on assets of R165 289 reported relates to assets that were transferred to KZN Liquor Board, to the KZNFC not being able to utilise the equipment on its new premises and R18 944 relating to cellphones that were disposed of.

Production equipment was restated to include equipment bought by Maxum Media on behalf of the KZNFC. KZNFC had a memorandum of agreement with Maxum Media in which part of the training funds paid over to them would be utilised to procure equipment for training the beneficiaries.

An increase in additions in 2015/2016 on production equipment is due to a reclassification that was initially expensed and ought to have been classified as fixed assets and non-capitalised items. The retrospective adjustment resulted in a net increase of R168 298 in production equipment and R24 825 on non-capitalised items. KZNFC had a memorandum of agreement with Maxum Media in which part of the training funds paid over to them would be utilised to procure equipment for training the beneficiaries.

IT equipment was adjusted by cisco switches, equipment that was expensed in 2015/2016 KZNFC reinstated retrospectively in 2016/2017 as it should have been capitalised in line with its useful life. The value that was capitalised amounted to R27 398 and related to an accumulated depreciation of R761.

The KZNFC conducted a useful life estimate on its assets for the period in review and a number of assets were found to still be useful for another year due to their conditions and compatibility.

8. Intangible assets

	2017			2016 Restated		
	Cost/ Valuation	Accumulated amortisation and Accumulated Impairment	Carrying Value	Cost/ Valuation	Accumulated amortisation and Accumulated Impairment	Carrying value
Computer software, other	1 220 513	(1 004 170)	216 343	1 196 579	(707 113)	489 466

Reconciliation of intangible assets – 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	489 465	23 934	(297 057)	216 342

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016

8. Intangible assets (continued)

Reconciliation of intangible assets – 2016

	Opening Balance	Additions	Amortisation	Total
Computer software, other	836 236	49 032	(395 803)	489 465

The KZNFC conducted a useful life estimate on its assets for the period in review and a number of assets were found to still be useful for another year due to their conditions and compatibility.

9. Finance lease obligation

	2017	2016
Minimum lease payments due		
– within one year	-	65 653
– in second to fifth year inclusive	-	4 164
Present value of minimum lease payments	**-**	**69 817**
Non-current liabilities	-	4 164
Current liabilities	-	65 653
	-	**69 817**

All the finance leases that were reflected in the prior year were settled in full in the year under review.

10. Payables from exchange transactions

	2017	2016
Trade payables	4 360 344	7 524 100
Other current liabilities – Board fees	-	22 594
Deposits on cluster rentals	3 330	-
Leave provision	666 921	420 446
13th cheque savings	103 773	92 694
Accrued performance bonuses	1 564 612	1 639 873
	6 698 980	**9 699 707**

The ageing of trade payables as at reporting date was as follows:

	2017	2016
Goods and services		
30 days	3 024 772	6 659 347

11. Taxes and transfer payable (non-exchange)

	2017	2016
Medical aid	53 013	60 414
Provident fund	-	129 747
	53 013	**190 161**

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016
12. Rendering of Services		
Directors' programme	274 305	-
Telephone usage	8 472	-
	282 777	**-**

The services rendered relates to an amount of R274 305 received from National Film and Video Foundation (NFVF) for the Directors' Programme that Human Capital Development (HCD) is currently running in partnership with the NFVF and an amount of R8 472 for telephone usage billing to Ingomso Film Skills while renting office space.

Figures in Rand	2017	2016
13. Rental of facilities and equipment		
Rental of office space	230 880	-
Rental of equipment	8 550	-
	239 430	**-**

Rental income relates to rental for office space at the KZN Film Cluster and hire of production equipment.

Figures in Rand	2017	2016
14. Investment revenue		
Interest revenue		
Bank	1 672 666	1 396 550
15. Other income		
Partnerships and other income	76 141	31 959
Insurance and provident fund recoveries	30 505	51 484
	106 646	**83 443**

The amount of R76 141 includes an amount of R60 000 from NFVF for the Outreach Programme, R16 141 for the insurance bonus payout and tender documents. Insurance recoveries relate to receipts for claims on loss of assets during the year under review. Provident fund relates to amount that was overpaid to Alexander Forbes.

Figures in Rand	2017	2016
16. Government grants and subsidies		
Released to income from KwaZulu-Natal EDTEA	68 211 000	63 178 000
Special grants	3 561 000	1 479 500
Total grants released	71 772 000	64 657 500

The special grant of R3 561 000 was received from EDTEA to fund the KZN Youth Film and Television Incubation Programme.

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016

17. Members' emoluments

2017

	Member's Fees	Sub-committees	Other Payments	Total
W. Msomi	367 424	-	1 133	368 557
B.N. Malange	198 644	27 687	-	226 331
P. Raleigh	88 677	19 682	-	108 359
M. Mzimela	80 273	27 687	8 225	116 185
L. Berning	88 742	60 794	7 227	156 763
* D. Ramuedzisi	-	34 755	-	34 755
* K. Simelane	-	33 124	-	33 124
	823 760	**203 729**	**16 585**	**1 044 074**

2016

	Member's Fees	Sub-committees	Other Payments	Total
W. Msomi	388 118	-	11 445	399 563
B.N. Malange	197 837	15 492	8 150	221 479
P. Raleigh	88 507	8 529	-	97 036
M. Mzimela	62 739	-	-	62 739
L. Berning	88 507	47 243	-	135 750
* D. Ramuedzi	-	29 680	-	29 680
* K. Simelani	-	6 991	-	6 991
	825 708	**107 935**	**19 595**	**953 238**

*The KZNFC had independent non-Board members that are serving on sub-committees.

Other payments relate to subsistence and travel costs paid to Board members when they were on KZNFC business.

Members of the KZNFC Board that are employed within government do not receive remuneration for the service rendered as Board members. The following members were, therefore, not paid for the current financial year:

- N. Khoza
- Z. Gwala
- N. Mthembu

Notes to the Financial Statements (continued)

Figures in Rand		2017	2016

18. Employee related costs

Executive management	Designation	2017	2016
C.L. Coetzee	Chief Executive Officer	1 904 248	1 738 333
K. Bogatsu	Chief Financial Officer	1 423 544	1 312 614
J.M. Japal	Chief Operations Officer	1 399 001	1 299 863
		4 726 793	**4 350 810**

2017	Salary	Cellphone Reimbursements	Employer Contributions	Performance Bonus	Total
C.L. Coetzee	1 692 888	28 000	29 172	154 188	1 904 248
K. Bogatsu	1 278 280	15 600	22 503	107 161	1 423 544
J.M. Japal	1 272 306	5 200	22 408	99 087	1 399 001
	4 243 474	**48 800**	**74 083**	**360 436**	**4 726 793**

2016	Salary	Cellphone Reimbursements	Employer Contributions	Performance Bonus	Total
C.L. Coetzee	1 597 636	-	1 785	138 912	1 738 333
K. Bogatsu	1 206 111	-	1 785	104 718	1 312 614
J.M. Japal	1 206 185	-	1 785	91 893	1 299 863
	4 009 932	**-**	**5 355**	**335 523**	**4 350 810**

	2017	2016
Non-executive employee costs		
Cost of employment	12 518 153	11 264 400
Performance bonus	1 204 176	1 304 351
Company contributions	221 164	48 185
Cellphone reimbursements	57 600	-
Temporary staff	12 671	93 634
Contractor	292 195	36 168
Leave expense	246 475	208 362
	14 552 434	**12 955 100**
Total employee related costs	19 279 227	17 305 910

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016
19. Finance costs		
Trade and other payables	1 785	354
Late payment of tax	1	16
	1 786	**370**

Interest relates to trade payables invoices that were being disputed and, therefore, attracted interest at finalisation of dispute.

Figures in Rand	2017	2016
20. Marketing and projects		
Advertising and promotions	2 172 288	2 631 427
Branding and marketing	2 769 054	2 939 967
Familiarisation tours	159 059	-
Locations and facilities	93 408	-
Simon Mabhunu Sabela – film awards	6 700 000	6 141 017
Special projects – Durban International Film Festival	-	1 910 000
Special projects – other festivals	938 309	2 127 865
	12 832 118	**15 750 276**

The marketing costs relates to the KZNFC initiatives in promoting KwaZulu-Natal as a preferred film destination to the local and international stakeholders.

Figures in Rand	2017	2016
21. Depreciation and amortisation		
Furniture and fittings	307 420	121 724
Computer equipment	601 476	824 234
Computer software	297 057	395 802
Office equipment	32 157	11 381
Finance leases assets	47 763	81 170
Production and development equipment	434 203	190 718
Cellphones	9 774	3 248
Lease hold improvements	497 285	30 677
	2 227 135	**1 658 954**

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016
22. Operating expenses		
Advertising	121 150	276 381
Bank charges	32 967	34 303
Cleaning	525 188	107 252
Consulting and professional fees	1 054 234	1 078 166
Corporate social initiatives	121 430	147 619
Fines and penalties	-	5 627
Insurance	113 855	142 571
Conferences and seminars	6 217	11 592
IT expenses	1 603 633	886 131
File management	49 581	30 914
Recruitment costs	116 149	403 043
Postage and courier	81 763	17 231
Printing and stationery	435 984	321 694
Security services	881 617	46 868
Staff welfare	134 837	23 644
Subscriptions and membership fees	111 660	49 481
Telephone and fax	678 219	687 005
Training	846 948	801 810
Travel – local	853 005	664 241
Non-capitalised equipment – consumables	896 262	329 436
Electricity	574 797	243 031
Water	76 016	11 481
Internship programme	242 165	208 080
Employee wellness	112 808	108 089
Repairs and maintenance	39 393	5 521
Office interior design	1 152 398	647 150
Lease rentals on operating lease	2 469 814	1 813 033
Other expenses	184 396	177 463
	13 516 486	**9 278 857**
23. Auditors' remuneration		
External auditors fee	789 514	828 194
24. Production and development costs		
Film production		
Film production	13 430 906	11 999 907

The amount relates to projects funded through the KZNFC film funding policy. This is to ensure there is an increase in production of film and television in KwaZulu-Natal Province.

	2017	2016
Project costs		
SMME programme & incubation	1 095 300	3 112 002
Stakeholder engagement programme	976 480	580 651
Bursaries	1 389 243	610 115
Skills development	2 671 755	5 251 465
	6 132 778	9 554 233
Total production and development costs	**19 563 684**	**21 554 140**

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016
25. Research and development		
Film industry research	666 527	1 212 380
26. Cash generated from operations		
Surplus (deficit)	3 968 733	(2 444 584)
Adjustments for:		
Depreciation and amortisation	2 227 136	1 658 954
Loss on assets written off	184 233	39 758
Prior year adjustment	-	4 711
Changes in working capital:		
Receivables from exchange transactions	(2 503)	-
Other receivables from non-exchange transactions	(163 895)	1 178
Prepayments	2 956 395	(2 002 084)
Payables from exchange transactions	(3 000 725)	5 134 929
Taxes and transfers payable (non-exchange)	(137 148)	172 345
	6 032 223	**2 565 208**

27. Risk management

Financial risk management

Capital management

The Entity manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the assets. The Entity's overall strategy remains unchanged. The Entity is not subject to any externally imposed capital requirements.

Cash and cash equivalents	20 441 230	20 364 719
Prepayments	369 063	3 325 458
Sundry debtors	1 823	-
Receivables from exchange transactions (cluster rentals)	680	-
Receivables from non-exchange transactions (SARS)	163 932	38
	20 976 728	**23 690 215**

Liquidity risk

The Entity's exposure to liquidity risk is minimal as it is 100% funded by the EDTEA. The annual budgets are approved at the beginning of each fiscal year and drawn down as requested at the beginning of each quarter. Cash flows are monitored monthly against budgets and adjustments are made where necessary. Risk management assessments are conducted annually to assist with identifying any possible cash flows liquidity or other risks.

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016

27. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterpart will default on its contractual obligations resulting in financial loss to the Entity.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors.

Other receivables comprise a widespread counterbase. Credit exposure is controlled by the application of the Entity's credit control and debt collection policies.

There has been no significant change during the financial year, or since the end of the financial year, to the Entity's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing the risk. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Entity's maximum exposure to credit risk.

Potential concentration of credit risks consists principally of other trade receivables and short-term cash investments. At year end, management did not consider the Entity to have significant concentration of credit risk other than short-term investment held with the bank.

Market risk

Interest rate risk

The Entity's interest bearing assets are included under cash and cash equivalents. The Entity's income and operating cash flows are substantially independent of changes in market interest rates due to the short-term nature of interest bearing assets.

Balances with banks and all call and current accounts attract interest at rates that vary with the South African prime rate.
The Entity generally adopts a policy of ensuring that its exposure to changes in interest rates is on floating rate basis.

Interest rate sensitivity analysis

Interest rate risk

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the potential change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows reasonable expected changes in the interest rate, either an increase or decrease in the interest percentage. The equal but opposite percentage adjustment to the interest rate would result in an equal but opposite effect on surplus and, therefore, has not been separately disclosed below. The disclosure only indicates the effect of the change in interest rate on surplus.

Estimated increase in rates		
Estimated increase in basis points	**100**	**100**
Financial asset profile	**2017**	**2016**
Cash and bank balances	20 441 230	20 364 719

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variable remain constant. The analysis is performed on the same basis for 2016

	2017		**2016**	
Surplus or deficit	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	204 412	(204 412)	203 647	203 647

Notes to the Financial Statements (continued)

Figures in Rand	2017	2016

27. Risk management (continued)

Currency risk

The Entity is exposed to currency risks due to foreign currency payments, however, management has ensured that all foreign transactions are hedged, where possible. The foreign currency transactions are monitored by ensuring that payments are made within the transaction date to avoid high fluctuations of the different currencies.

Price risk

The Entity has limited market risk exposure for the year, the foreign exchange transactions during the current financial year having been limited to payments for services rendered which are paid using the ruling transaction rate on the date of payment.

28. Contingencies

The Entity has reviewed the contingent liabilities as at 31 March 2017, and there were no significant matters or legal cases that the Entity was aware of.

29. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	Non-financial Instruments	Loans & Receivables	Total
Trade and other receivables from exchange transactions	2 503	-	2 503
Other receivables from non-exchange transactions	163 932	-	163 932
Cash and cash equivalents	-	20 441 230	20 441 230
Prepaid expenses	369 063	-	369 063
	535 498	**20 441 230**	**20 976 728**

Financial liabilities

	At Amortised Cost	Non-financial Instruments	Loans & Payables	Total
Trade and other payables from exchange transactions	3 024 772	666 921	3 007 288	6 698 981

2016

Financial assets

	Non-financial Instruments	Loans & Receivables	Total
Cash and cash equivalents	-	20 364 719	20 364 719
Prepayments	3 325 458	-	3 325 458
	3 325 458	**20 364 719**	**23 690 177**

Financial liabilities

	At Amortised Cost	Non-financial Instruments	Loans & Payables	Total
Other financial liabilities	69 817	-	-	69 817
Trade and other payables from exchange transactions	6 659 347	420 446	2 619 913	9 699 706
	6 729 164	420 446	2 619 913	9 769 523

Management has reviewed the financial instruments and assessed the impact of interest. The financial instruments are of a short-term nature and, therefore, interest has not been calculated as there will be no significant impact on the financial instruments.

Notes to the Financial Statements (continued)

Figures in Rand		2017	2016

30. Related parties

Relationships

Members of key management	C.L. Coetzee K. Bogatsu J.M. Japal
Members of Board	W. Msomi B.N. Malange N. Khoza L. Berning R. Raleigh Z. Gwala M. Mzimela N. Mthembu
Independent sub-committee members	D. Ramuedzisi K. Simelane

Schedule 3C Associate Entity (KwaZulu-Natal Department of Economic Development Tourism and Environmental Affairs-EDTEA Shareholdership)

	2017	2016
Related party transactions		
Total grants received for the year		
EDTEA – operational grants	68 211 000	63 178 000
EDTEA – special projects	3 561 000	1 479 500
Compensation to Members and key management		
Key management remuneration	4 726 793	4 350 810
Board and Committee members' fees	1 044 074	953 238
Non-exchange transactions:		
KZN Liquor Authority – transfer of assets	238 500	-

The transaction between KZN Liquor Authority relates to a transfer of assets of R238 500 that were obsolete to KZNFC at the time of moving offices from Marine Building to Musgrave Office Towers.

31. Fruitless and wasteful expenditure

	2017	2016
Interest paid	1 309	370
Penalties paid	477	5 627
Legal fees paid	1 140	-
Flights admin fees	–	3 126
Subtotal	2 926	9 123
Recovery – flights	-	(3 126)
Expenditure write off due to non-recovery	-	(5 997)
	2 926	**-**

Interest paid relates to SARS interest and interest from courier IT due for late payment. Penalties paid relates to the SABC TV licence that was paid late and attracted penalties. Legal fees disclosed are in connection to legal costs from courier IT legal team for late payment. The matters were investigated and no employee was found negligent in their duties.

32. Irregular expenditure

	2017	2016
Opening balance	254 512	561 985
Less: Amounts condoned	(254 512)	(307 473)
	-	**254 512**

Notes to the Financial Statements (continued)

Figures in Rand		2017	2016
32. Irregular expenditure			
Opening balance		254 512	561 985
Less: Amounts condoned		(254 512)	(307 473)
		-	**254 512**

All irregular expenditure arising from prior year was condoned in the year under review.

		2017	2016
33. Funds to be surrendered			
Cash and cash equivalents		20 441 230	20 364 719
Creditors and accruals for goods and services		(4 360 345)	(7 524 100)
Projects to be finalised and completed 2017/2018		(16 080 885)	(12 840 619)
		-	-

There are no grants or funds to be surrendered in the year under review due to the KZNFC having all its available funds being fully committed through contracts.

34. Commitments

Authorised capital expenditure

		2017	2016
Authorised capital expenditure			
Approved and contracted		473 500	631 168
Total capital commitments			
Approved and contracted		473 500	631 168

35. Prior period adjustments

The Annual Financial Statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practices on a basis consistent with the prior year. Where adjustments were done in the current Annual Financial Statements, management considered the impact on the opening balances of the earliest comparative figures and these were adjusted accordingly.

The effect of the prior period adjustment on the financial statements for the period ended 31 March 2016 is as follows:

Statement of Financial Position

Receivables from exchange transactions	**2016**
Previously stated	8 284
Prior year adjustment	(8 284)
	-

The adjustment was for sundry debtor that was incorrectly stated as a recovery.

Notes to the Financial Statements (continued)

Figures in Rand		2017	2016

35. Prior period adjustments (continued)

Property plant and equipment	**2016**
Previously stated	4 522 445
Prior year adjustment	194 934
	4 717 379

The adjustment was for reallocation of PPE (production equipment and computer equipment) that was previously expensed.

Payables from exchange transactions	**2016**
Previously stated	9 679 544
Prior year adjustment	20 163
	9 699 707

The adjustment is made up of amount for Board fees that were not accrued for and additional performance bonus provision.

Accumulated surplus	**2016**
Previously stated	18 770 888
Prior year adjustment	166 487
	18 937 375

The prior year adjustments on surplus is an aggregation of the adjustments reported on PPE receivables from exchange and payables from exchange transactions as mentioned above.

Statement of Financial Performance

Board and Committees members' costs	**2016**
Previously stated	944 480
Prior year adjustment	8 758
	953 238

The prior year adjustment relates to Board fees that weren't accrued for.

Employee related costs	**2016**
Previously stated	17 281 510
Prior year adjustment	24 401
	17 305 911

This prior year adjustment is for performance bonus adjustment.

Notes to the Financial Statements (continued)

Figures in Rand		2017	2016

35. Prior period adjustments (continued)

Production and development	2016
Previously stated	21 747 263
Prior year adjustment	(193 123)
	21 554 140

The amount refers to production equipment that was reallocated from production and development costs.

Depreciation	2016
Previously stated	1 658 193
Prior year adjustment	761
	1 658 954

The adjustment on depreciation is due to the reclassification of fixed assets that were expensed.

Operating expenses	2016
Previously stated	9 281 430
Prior year adjustment	(2 574)
	9 278 856

The adjustment relates to the reclassification of an asset from IT costs to fixed assets.

36. Operating lease

2017

Minimum lease payments	<1 year	1-5 years
Broll – Rental of property for office space	2 609 598	8 855 643
Nashua – Rental Copier	101 766	136 970
Konica Minolta – Rental Copier 13th floor	47 913	-
Konica Minolta – Rental Copier 12th floor	57 389	52 606
Nestle – Rental 2 Coffee Machine 12th & 13th floor	13 543	2 257
	2 830 209	**9 047 476**

37. Going concern

We draw your attention to the fact that at 31 March 2017, the Entity had accumulated surplus of R22 906 108 and that the Entity's total assets exceeded its liabilities by R22 906 108.

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

The management have reviewed the Entity's cash flow forecast for the year to 31 March 2018 and, in the light of this review and the funding commitment by the Department of Economic Development Tourism & Environmental Affairs, they are satisfied that the Entity has access to adequate resources to continue in operational existence for the foreseeable future.

38. Events after the reporting date

There were no events that have taken place after the reporting date, but before the Annual Financial Statements are issued.

There were no changes that happened after the reporting date.

Notes to the Financial Statements (continued)

Figures in Rand		2017	2016

39. Actual operating expenditure versus budgeted operating expenditure

Refer to Statement of Comparison of Budget and Actual Amounts for the comparison of actual operating expenditure versus budgeted expenditure.

39.1 Rendering of services – the variance is due to the KZNFC not budgeting for rendering of services for the Directors programme as HCD strategy was finalised in August 2016 and this was a new initiative with NFVF.

39.2 Rental of facilities and equipment – Cluster facilities were planned for rental but there were no basis for estimations to input into the budget.

39.3 Other income – This income was unforeseen, thus the KZNFC had not budgeted for it.

39.4 Interest received – The KZNFC doesn't budget for interest income as receipt of funds from EDTEA are determined by the bank balance of the KZNFC at the end of each month. Therefore, it would be difficult to determine to how much can be transferred to investment.

39.5 Employee related costs – Underspent due to resignation received in the last quarter of the financial year. KZNFC could not fill this post due to the delays in approvals to fill positions by Ministry.

39.6 Board members' remuneration – Underspent due to the KZNFC Board not receiving any increases in the fees paid to them. The KZNFC has also implemented cost-cutting measures as per Provincial Treasury circular no:12 2016, thus resulting in further savings.

39.7 Depreciation – The KZNFC does not budget for depreciation as there is no cash outflow for this transaction.

39.8 Research and development – Underspent due to a delay in the commencement of the audience development research. The research commenced in February 2017 and will be completed in the first quarter of 2017/2018.

39.9 Production and development funding – The underspend is due to delays in receiving milestone reports for projects from funding beneficiaries. KZNFC pays the beneficiaries based on milestones achieved per the contract agreement. The underspend is also due to a delay in the implementation of skills development programmes. All programmes began in the second half of the year under review and will be completed in quarter two of 2017/2018.

39.10 Marketing and projects – The underspend relates to three international trips initially planned and budgeted for not taking place. These trips were planned for August and October 2016 but were cancelled.

39.11 Operating expenses – Savings are due to the implementation of cost-cutting measures as per Provincial Treasury circulars.

39.12 Loss on assets written off – relates to loss on assets that were transferred to KZN Liquor Board and cellphones. These were not budgeted for.

40. 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 the reasons for any deviations are recorded and reported at the next meeting of the members and include a note to the financial statements.

2017 – Deviations	**<R500 000**	**>R500 000**
Professional fees	265 296	-
Marketing and publications	1 468 588	-
IT costs	143 768	-
Research and development	25 000	-
	1 902 652	**-**

Notes to the Financial Statements (continued)

Figures in Rand		2017	2016

40. Deviation from supply chain management regulations (continued)

40.1 Professional fees

The costs relates to human resource related services where it was impractical to source three quotes due to the confidentiality of the functions and continuity of services to be rendered by sole provider.

40.2 Marketing and Advertising

This is due to targeted marketing of KZNFC to advertise on film and TV related publications and, therefore, it was impractical to source three quotes.

40.3 IT Costs

IT costs relates to the appointment of a service provider on the basis of continuation as work had already started, being the decommissioning of IT infrastructures from KZNFC Marine Offices and recommissioning in the new premises Musgrave Towers. The project included IT installation of all four floors occupied by the Entity as per requirements of KZN Film Cluster relocation plans.

40.4 Research and development

Research and development cost relates to a sole service provider who was going to provide statistical information on the television platform in the country.

2016 – Deviations	**<R500 000**	**>R500 000**
IT-cost	161 297	-
Marketing and publications	1 151 148	-
Office equipment	67 118	-
	1 379 563	**-**

41. Budget differences

Material differences between budget and actual amounts

There are differences between budget and actual expenditure in some of the expenditure categories. These are mainly due to KZNFC paying funding contracts based on project milestones. The KZNFC uses the accrual principle in reporting while the budget is on a cash basis.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters.

2017	**Original Budget**	**Final Adjusted Budget**	**Actual Expenditure**
KZNFC	68 211 000	92 136 071	(69 888 888)