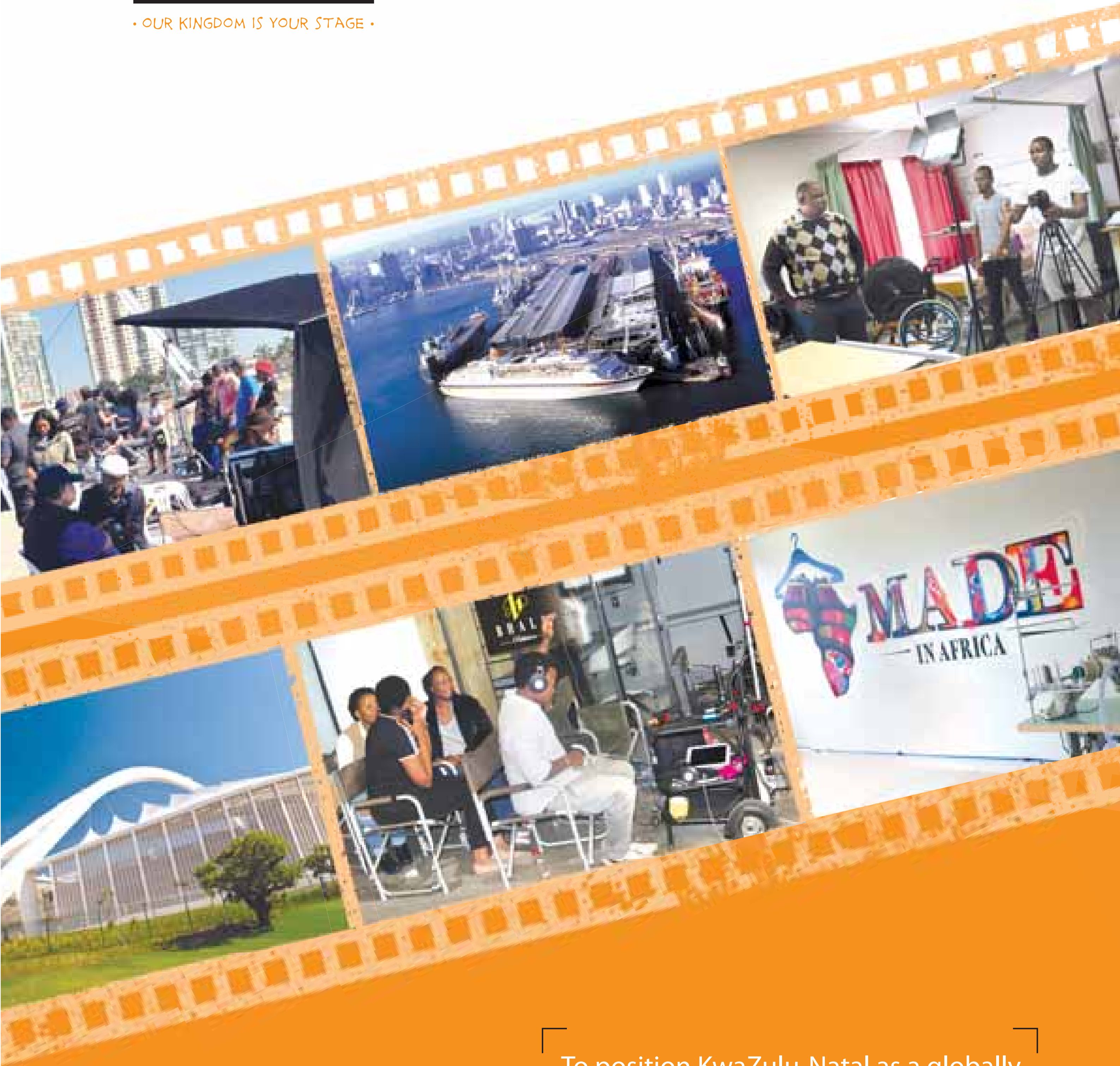
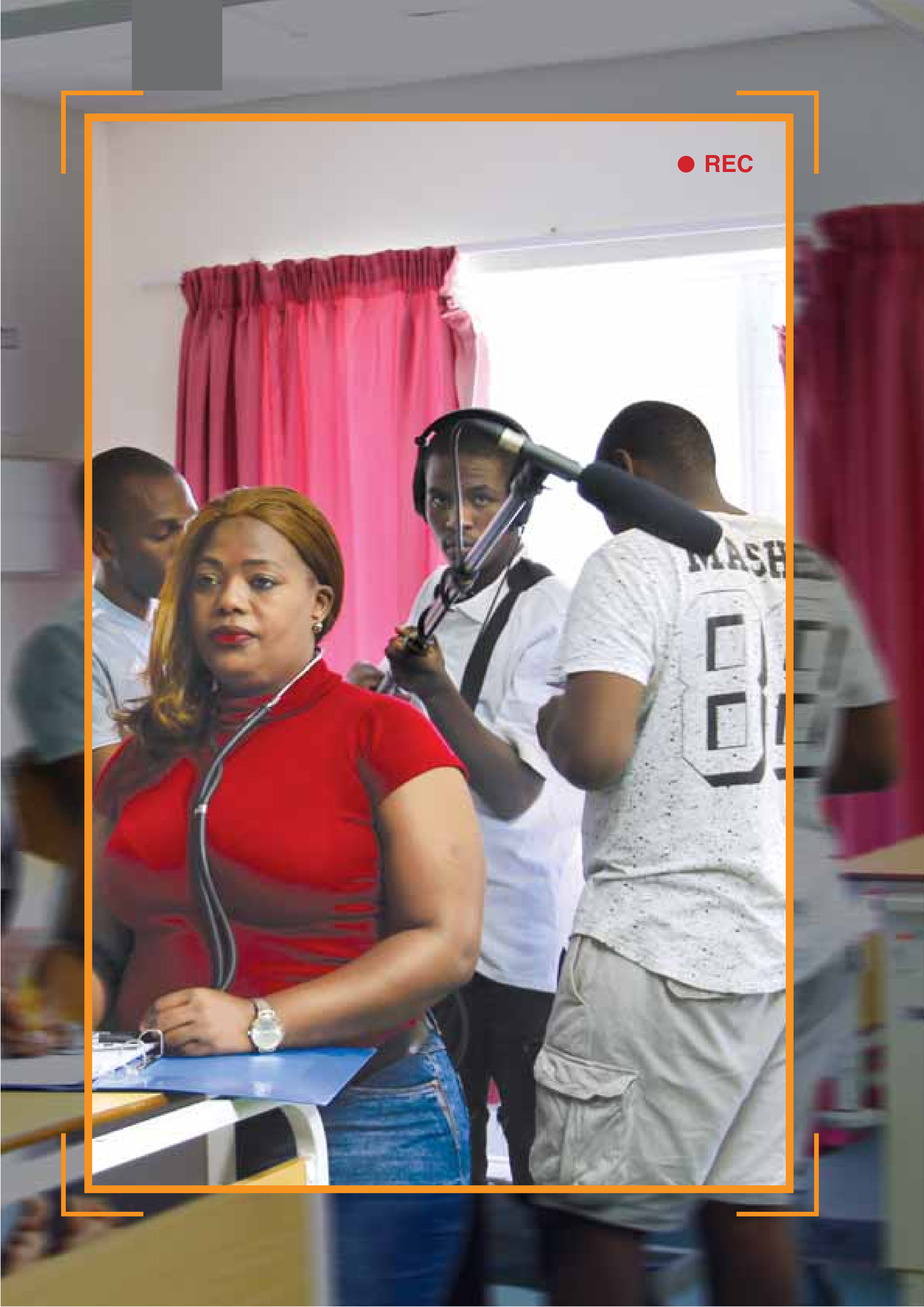
KWAZULU-NATAL
FILM COMMISSION
SOUTH AFRICA

• OUR KINGDOM IS YOUR STAGE •

ANNUAL REPORT 2017/18



To position KwaZulu-Natal as a globally competitive, diverse and sustainable industry and choice film destination.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GENERAL INFORMATION

REGISTERED NAME:
KwaZulu-Natal Film Commission

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PART A:

General Information

Foreword by the MEC

Sihle Zikalala, MPL

MEC: Economic Development, Tourism and Environmental Affairs

The film industry is one of the sectors that is key to our provincial economic growth. The KwaZulu-Natal Film Commission has positioned itself to serve and be a catalyst in this process. In the financial year 2017/18, the Commission funded eleven development projects, thirty-seven production projects, one post production project and eight heritage projects. It is important to mention that 98% of these projects were awarded to Previously Disadvantaged Individual filmmakers with 32% youth and 38% women filmmakers, our target group, who have been marginalised for many years in the film industry. Indeed, the growth of the film industry in the province will also act as a catalyst to job creation and the opening of opportunities for these members of our community.

The Commission further ensured that the province is fully marketed as a destination of choice for the film industry. The productions that were funded by the Commission had to spend 50% of their budget in the province and had to use the local services, local cast and crew as far as possible.

KZNFC is driving towards the establishment of a sustainable film industry in the province. The film cluster that was launched in March 2017 is gradually alleviating the financial burden that emerging filmmakers had to face for many years. Through subsidized office space and access to tools of the trade, the local industry is enjoying the reduced costs of production in the province. The Commission has further put in place a strategy to promote the use of Zulu language in local production. A strategy that is primarily aimed at developing the local audience and at the same time marketing the province of KwaZulu-Natal as a film destination.

The Commission continued in the 2017/18 financial year to promote events and activities that profile filmmakers and their productions in the province. There were film festivals that were supported across the province, with intentions of growing the local film audience in local communities. The Commission once again supported the Durban International Film Festival, as this festival marks an important event in the international film festival calendar. The festivals market our province both nationally and internationally. The Commission also hosted the Simon "Mabhunu" Sabela Awards, an event that has received a lot of support and appreciation from the local film industry, as it recognises the local talent and provides a platform for their exposure.

Towards the end of 2017, the Cabinet took a decision to merge KZN Film Commission with KZN Tourism based on the presidential review of state-owned enterprises in a drive to reduce inefficiencies and ensure alignment of mandates. I am confident that this was a right decision and the two entities would be able to bring together their resources to better serve the people of this province.

Lastly, I would like to take this opportunity to convey my sincere gratitude to the Board, led by Mr. W Msomi and the staff of the entity, led by the CEO; Ms. C Coetzee, who have been able to champion the programmes of the KwaZulu-Natal Film Commission diligently with great professionalism and success.

Sihle Zikalala, MPL
MEC for Economic Development, Tourism and Environmental Affairs

Foreword by the Chairperson

Welcome Msomi
Chairperson of the Board

It gives me great pleasure to report on the activities that were undertaken by the KwaZulu-Natal Film Commission in the 2017/18 financial year. It was a rather difficult year, mainly due to the rationalisation process that was being undertaken by the entities in the Province, as well as the high vacancy rate within the entity. Despite this, the team re-engineered business processes to ensure a sound controlled environment and delivered once again on their mandate.

During the financial year, the entity received a transfer amount of R76 million from EDTEA and a further R12 million for youth and women incubation programmes. This represented a 6% increase from the 2016/17 budget allocation. The continued support by the Department is something that the entity treasures and is proud of. The budget has assisted the entity to focus its attention in providing support in the form of training and funding to the emerging filmmakers in line with the following KZNFC strategic goals.

- 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.

KZNFC continues to aggressively market the province as a national and international film destination of choice. A number of productions that were shot in the province, like *Keeping Up with the Kandasamys, The Number, Beyond the River* and *Durban Beach Rescue* did very well in various platforms such as TV, markets, festivals and Cinemas. Internationally, KZNFC continues to receive inquiries from filmmakers who are seeing KZN as a suitable location for their productions. We will continue to engage the international filmmakers to consider KZN as their preferred destination.

While we continue to fund the development and production projects, the entity has initiated a program called Film Industry Transformation Initiative (FITI). This is a three-year program run by KZNFC that focuses on training and nurturing film graduates to acquire critical scarce skills in the film industry. We are hopeful that this program will certainly assist in plugging some of the critical skills gaps that this province is currently experiencing, particularly at a senior level.

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, MEC S. Zikalala for his vision and support to the Board.

Welcome Msomi
Chairperson of the Board
Date: 30 May 2018

Chief Executive Officer's Overview

Carol Coetzee
Chief Executive Officer

The 2017/18 financial year continued to witness an increase in number of films that are locally produced. The KwaZulu-Natal Film Commission was proud to see some of its supported productions receiving both international and top local accolades and generating relatively good revenues in the box office. Productions such as *Keeping Up with the Kandasamys, Kalushi* and *Beyond the River* did relatively well in local box office. The three films were among the top ten local films in SA box office.

Keeping Up with the Kandasamys took the top spot with over R16 million in revenues generated. Also important to note, was that the English language films did very well in an industry that has been dominated by the Afrikaans produced films. Even more exciting for the province was that the film, Beyond the River was in both English and Zulu languages, something that the Commission has identified as its strategic thrust in promoting the province of KwaZulu-Natal.

This was one of the most challenging years for the entity with a vacancy rate of 38% throughout the year and the inability to fill positions due to the pending outcome of the rationalisation process. Whilst the decision to merge with Tourism KwaZulu-Natal has provided an outcome, the future is still uncertain in terms of the future positioning of the Commission. Despite these challenges, the team have stepped up and through business realignment and appointment of temporary resources, we have delivered professional services to our clients (the public) and delivered exceptional progress against our performance indicators. Several targets were exceeded during the year through partnerships with both public and private sector wherein additional funding was raised in order to increase our outcomes. It is important to recognise the importance of these partnerships as they allow the Commission to extend it's reach and therefore our impact on the industry. Twelve partnership agreements were signed during the year wherein more than R13 million was raised. The performance information section of this report, provides detailed information regarding the progress made and the outcomes thereof of each of the strategic programmes of the Commission.

The implementation of the transformation policy has delivered tangible results. In 2017/18 financial year, 98% of the beneficiaries of the film fund came from previously disadvantaged individuals and 93% of them were Black. A staggering 77% of the beneficiaries of the film fund were from KZN. Five of the nine approved production projects were from female applicants. Furthermore, KZNFC continued to support women who are in the film industry through the skills development and incubation programs. The availability of space in our cluster precinct assisted us to reach out to more companies. The Commission is the first in SA to develop a strategy specific to people living with Disabilities and progress is being made after being approved in January 2018. The goal is to ensure that all citizens of KZN have access to visual media and opportunities within the film sector.

Through our continental connections, we had a Kenyan and Nigerian delegation attending the DIFF to share their industry experience. Currently, there are over 5 co-productions being considered with these African countries. During the DIFF, KZNFC hosted the fifth Simon 'Mabhunu' Sabela awards. The event provides a platform to acknowledge the talent of KZN's emerging and established filmmakers through the twenty-two categories. The event has grown over the years and the support that it receives from the industry is encouraging with approximately 600 filmmakers in attendance.

In March 2017, the Commission hosted an Indaba to discuss the challenges that confront filmmakers in the province and to come up with solutions. Feedback was provided in March 2018 on the progress being made against the resolutions. This is critical to ensure that the programmes of the Commission remain relevant to the filmmakers we serve.

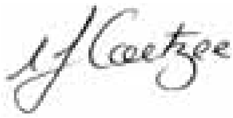
During the year, comprehensive research on audience development was undertaken and the results were shared with the industry at large during the Durban International Film Festival in order to enhance the understanding and improve the marketing phase of the value chain. Notwithstanding, the increase in number of local productions, the Commission is still concerned that the revenues these productions generate are simply not sufficient and will not provide space for growth and sustainability. The audience development research identified some of the elements that contribute to the poor performance of local productions in attracting audiences. The Commission with various stakeholders have started initiatives aimed at addressing the identified challenges through targeted audience development programs, film festivals and through comprehensive outreach and awareness campaigns.

The entity had a total budget of R104 million for the year under review, which was made up of R71 million operational grants for the year, R12 million for youth and women incubation programme received from EDTEA and R21 million roll-over from 2016/17 financial year.

At the end of the financial year, 86% of the allocated funding was spent and 14% was committed to projects which had commenced during the year and would be concluded in the first quarter of the 2018/19 financial year. The entity achieved 86% of its Annual Performance targets with several of the targets being exceeded. This is described in more detail in the section that deals with Performance Information.

During the 2017/18 financial year, a total of R2,7 million own revenue was generated through rental of equipment, recoupment from production funding, interest earned on investment bank account and rental of office space. This funding will be reinvested into the programmes for 2018/19.

To our shareholder, the MEC, the Head of Department and her team, thank you for your support during the year and continued partnership. I would like to express my sincere gratitude to our Board Members for their guidance and support throughout the year. Finally, I wish to express my sincere gratitude to my executive management team (Jackie Motsepe and Kea Bogatsu) and the team at KZNFC who have demonstrated their commitment to the vision of KZNFC and to serving the people of KZN.



Carol Coetzee
Chief Executive Officer
Date: 30 May 2018

Board Leadership

BACK ROW (Left to Right): Nozizwe Mthembu, Jackie Motsepe (Chief Operating Officer), **Kealeboga Bogatsu** (Chief Financial Officer), **Nise Malange** (Deputy Chairperson), **Carol Coetzee** (Chief Executive Officer)

FRONT ROW (Left to Right): Musa Mzimela, Welcome Msomi (Chairperson)**, Leonie Berning**

CEO's Office

Left to Right: Carol Coetzee (Chief Executive Officer), **Nomathemba Ngcobo** (PA Intern), **Sandile Zuma** (Research Analyst), **Keshnee Williams** (Compliance Officer), **Ngqabutho Bhebhe** (Research & Development Manager)

Finance and Administration Office

BACK ROW (Left to Right): Motlatsi Makamole (Finance Trainee), **Linda Cebekhulu** (HR & Payroll Trainee), **Khensani Bikitsha** (Executive Administrator), **Nonjabulo Mnguni** (*SCM* Trainee), **Mthobisi Ncube** (Assistant Accountant), **Bukelani Dlezi** (Assistant Accountant)

FRONT ROW (Left to Right): Kealeboga Bogatsu (Chief Financial Officer), **Thandeka Dube** (Financial Accountant), **Asithandile Mkhize** (Finance Trainee), **Mthokozisi Cele** (IT Specialist)

Marketing and Industry Development

BACK ROW (Left to Right):); Valentia Mthembu (PR & Events Specialist), **Slindile Mthimkhulu** (FITI Intern), **Sphesihle Dlamini** (Facilities & Location Specialist), **Mbali Makhoba** (Human Capital Development Intern), **Naomi Gumede** (Production and Development Intern), **Nokuthula Shongwe** (Marketing Co-ordinator), **Zamabuya Msibi** (Human Capital Development Co-ordinator), **Mbali Nyuswa** (Receptionist), **Adolphin Mnguni** (Executive Administrator), **Buhle Ngcobo** (Production Co-ordinator), **Zanele Nhlapho** (Production Co-ordinator)

FRONT ROW (Left to Right):); Teboho Pietersen (Production Analyst), **Philasande Vuzane** (Marketing Trainee), **Jackie Motsepe** (Chief Operating Officer), **Simphiwe Ngcobo** (Production & Development Manager)

BOTTOM: Thobekile Gumede (Facilities and Locations Trainee)

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 is consistent with the annual financial statements audited by the Auditor-General.
- The Annual Report is complete, accurate and is 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 2018.

Yours faithfully

Carol Coetzee
Chief Executive Officer
Date: 30 May 2018

Welcome Msomi
Chairperson of the Board
Date: 30 May 2018

Strategic Overview

Vision

To position KwaZulu-Natal as a globally competitive, diverse and sustainable industry and 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 KwaZulu-Natal film industry.

Values

The values of the KZN Film Commission (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 manners 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 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 which governs the operations of the entity include the following: -

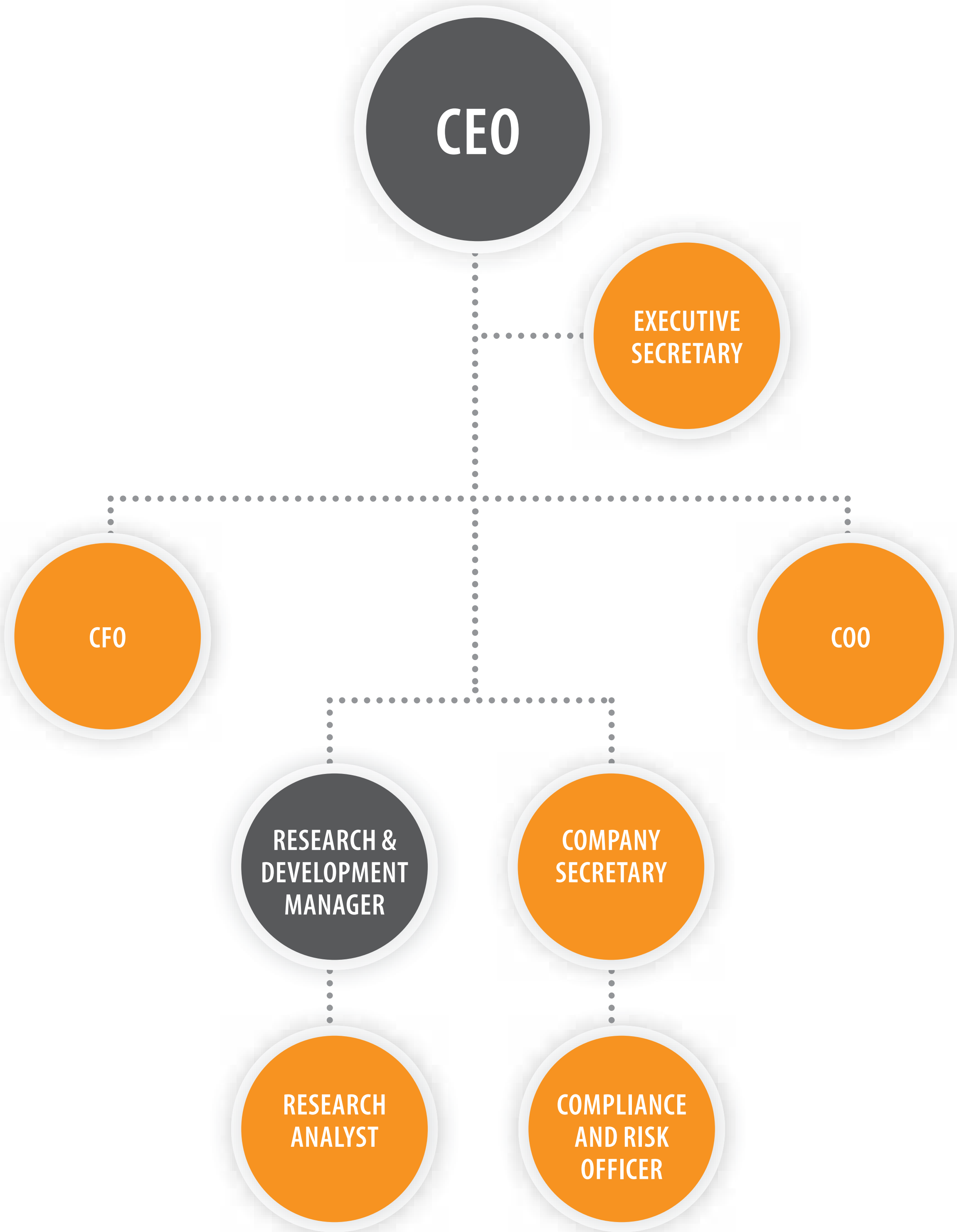
> The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)
> Public Finance Management Act (Act No. 1 of 1999, as amended)
> National Treasury Regulations 2001
> The National Film and Video Foundation Act (Act No. 73 of 1997)
> Promotion of Access to Information Act (Act No. 2 of 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.

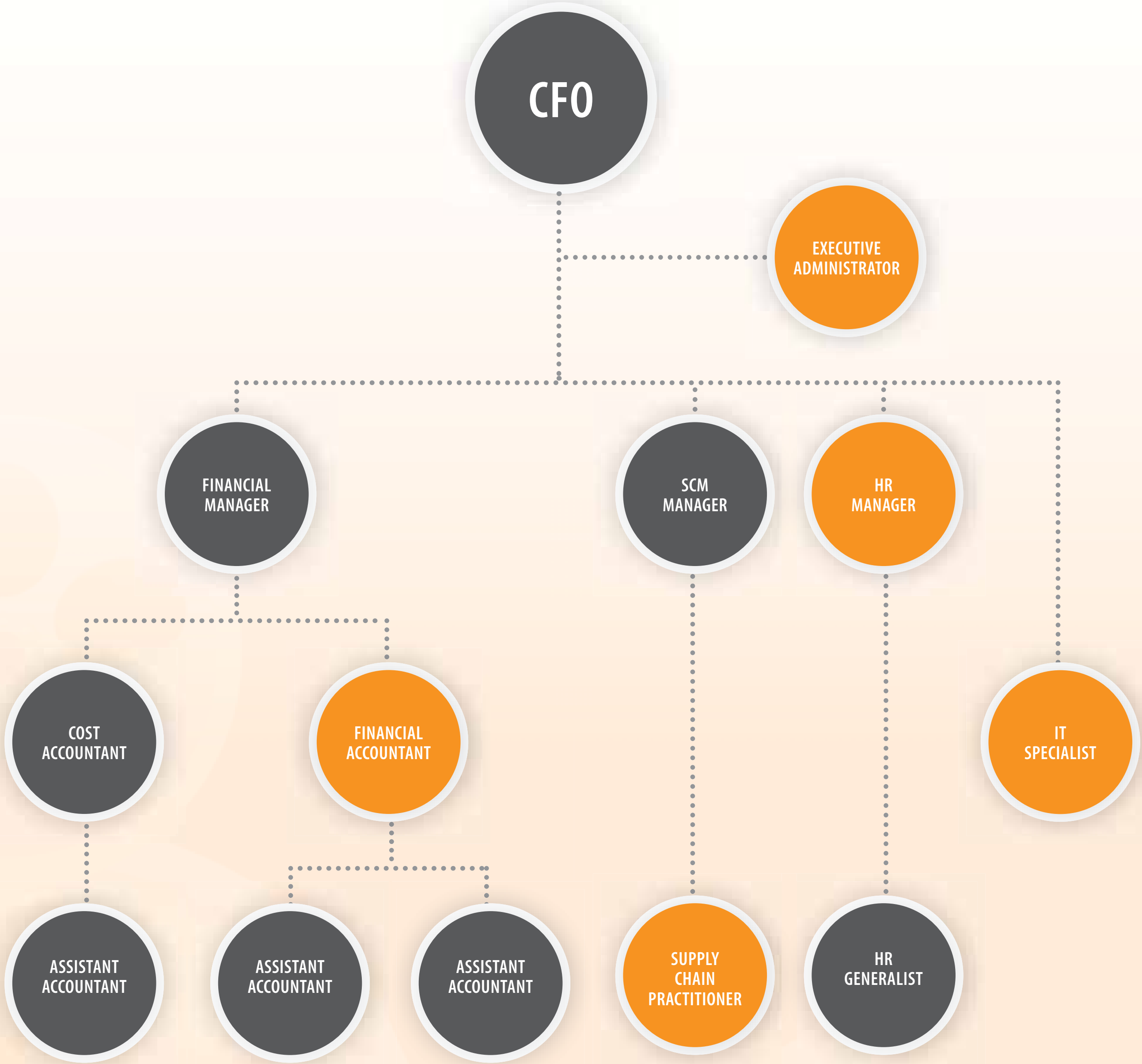
Organisational Structure

Office of the CEO



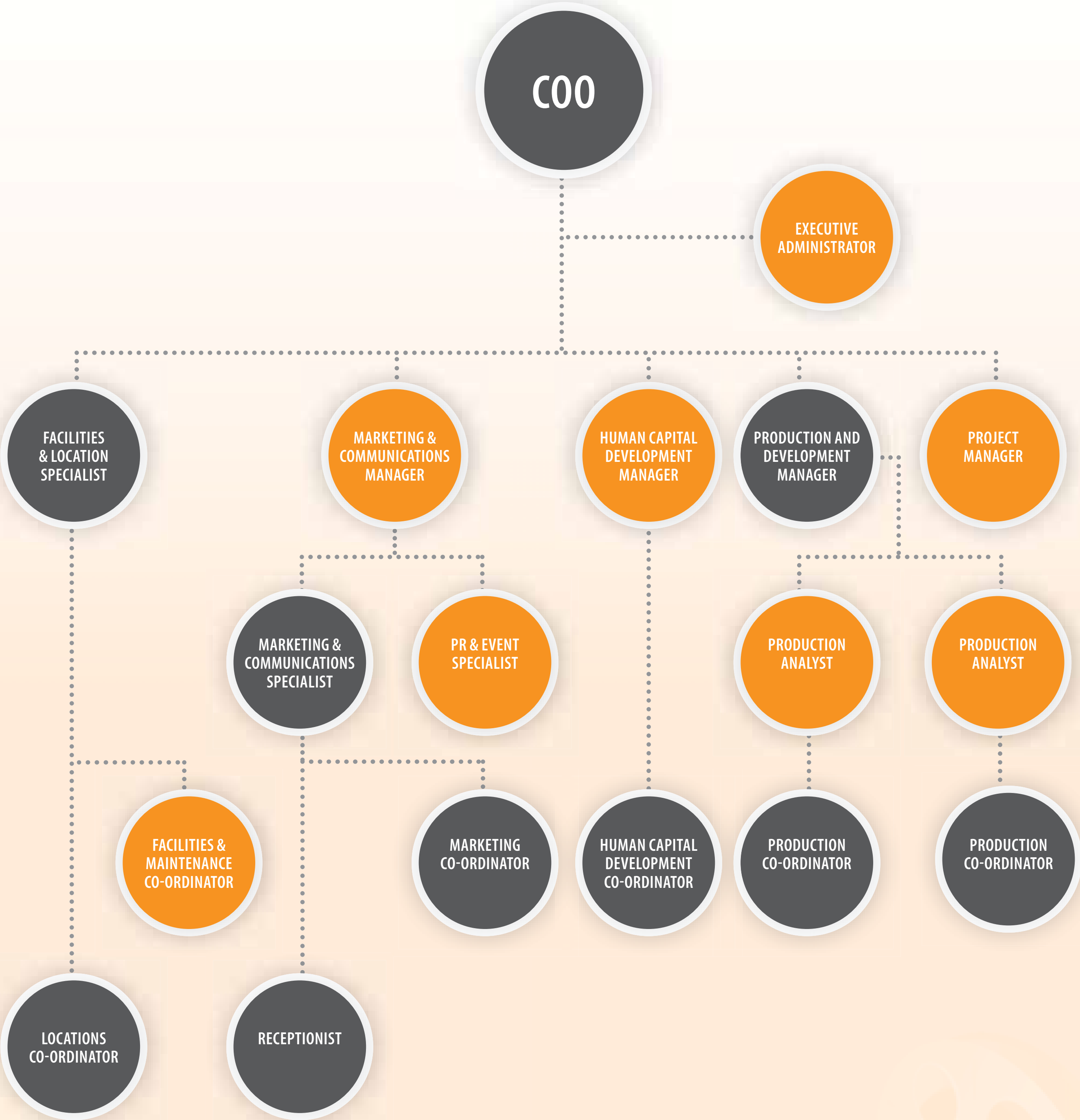
Organisational Structure *...continued*

Finance and Administration



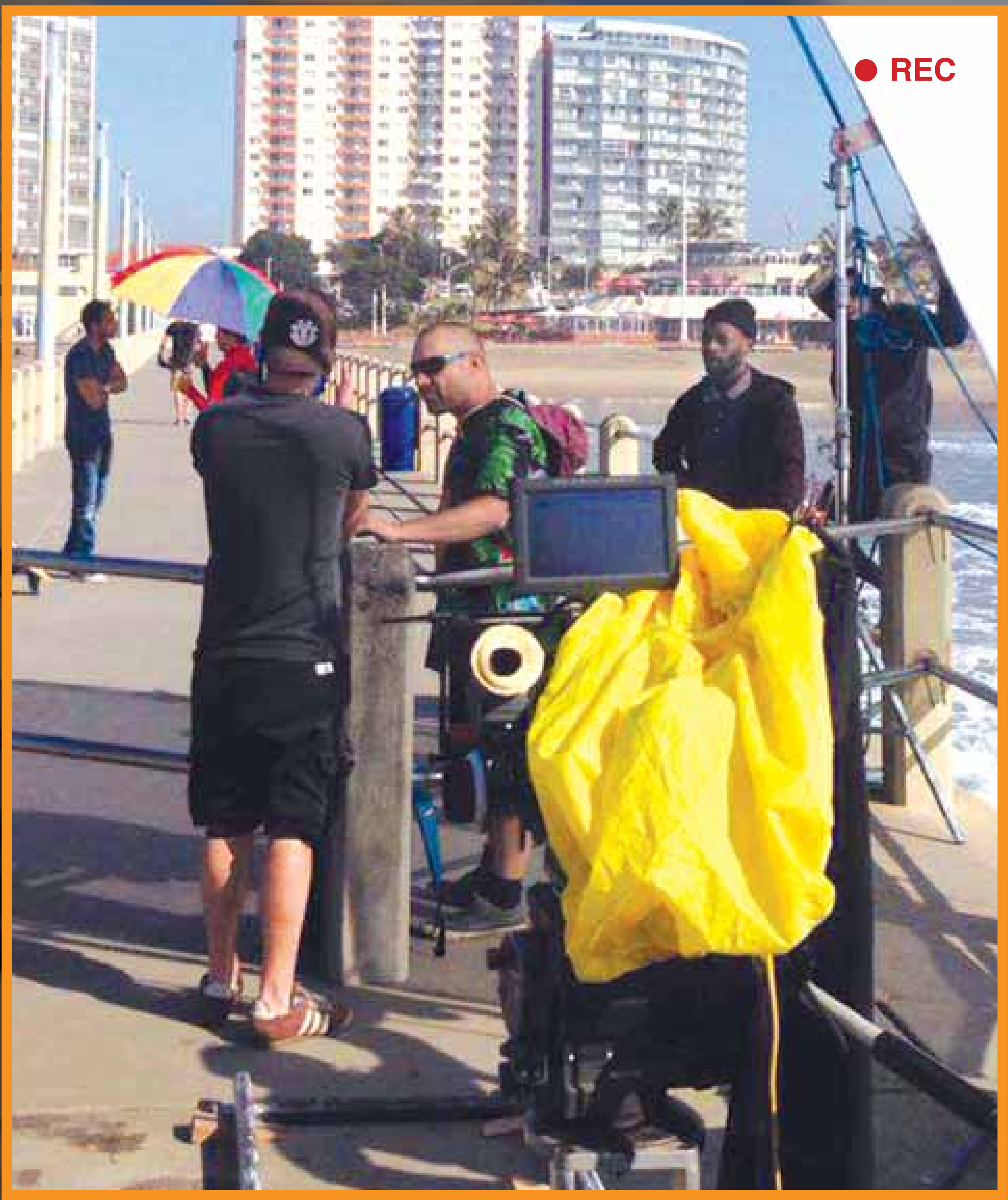
Organisational Structure *...continued*

Marketing and Industry Development



PART B:

Performance Information



Auditor's Report: Predetermined Objectives

The AG 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 other legal and regulatory requirements section of the auditor's report.

Refer to page 47 of the Report for the Auditor-General's Report, published as Part E: Financial Information.

Situational Analysis

Overview of the Service Delivery Environment

Institutional Environment - Internal

The Accounting Authority of the KZN Film Commission is the Board, appointed by the Executive Authority. The Board had six members at the end of the financial year, comprising of five non-executive Board members and one executive Board member. Three Board member's resigned during the financial year. Besides the rationalisation process that affected the entity, the term of Board members was expiring on 31st January 2018. The MEC extended the term for all the remaining members for a period until such time as the merger process is complete and a new Board is appointed.

The entity is comprised of three functional divisions which are described in more detailed below in the respective programmes, namely:

> The Office of the Chief Executive Officer;
> Finance and Administration; and
> Marketing and Industry Development.

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. Also, there were a number of engagements to discuss industry matters with various stakeholders such as, filmmakers, councillors and community members. The Municipal Film Office Forum was launched in July 2017 with the objective of synergising activities at local level and ensuring consistency in dealing with film related matters as part of the film friendly campaign. 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.

Also, in an attempt to have a full understanding of the industry, research works in various aspects of the film industry were undertaken. The topics that were researched on included the following: - audience development, The Animation Industry in South Africa, Baseline data on People Living with Disabilities in the KZN film industry and the analysis of trends in Web hosting sites. The research on these areas of study provided an in-depth understanding of the environment that the local film industry operates in. Also, a Women Empowerment Strategy was drafted and it is currently being workshopped with various key stakeholders.

During the 2017/18 financial year, KZNFC remained with a high vacancy rate which stood at 38%. Due to the rationalisation process, the positions were not filled and that meant service providers had to be sourced for some of the critical posts. The fact that these were short term solutions, to achieve a fully functioning staff complement still remained a challenge.

The uncertainty of the merger with Tourism KZN (TKZN) impacted on staff morale and levels of productivity as employees actively searched for alternative employment. Whilst several engagements have taken place, it is inevitable that this will be the consequence. Furthermore, most of the team members are considered "youth" and have been in the employ for over 3-4 years – the typical time cycle when change is required. Whilst the recent approval of critical posts will allow for certain internal mobility and promotions, there is no doubt that there will be an increase in resignations due to natural migration of our new millennials seeking exciting new challenges. Despite this, the team have performed well, with positive affirmation from the industry that the Commission is delivering on its programmes.

A new ERP system was implemented during the year to streamline process and enhance efficiencies. The system went live in October 2017 and has run parallel to the existing system for the remainder of the year. The online funding system is in the final stages of development and will prove to be a useful tool for filmmakers applying for funding and reduce the administration processes.

The Commission is now fully compliant with the relevant legislation in respect of accessibility for people living with disabilities. This was one of the key recommendations emanating from the disability strategy approved in January 2018.

The KZN Film Industry Transformation Initiative (FITI)

In the 2017/18 financial year, the entity began to prepare for the implementation of Film Industry Transformation Initiative that is designed to run for three years, addressing both the lack of transformation at senior levels of the industry as well as addressing the scarce skills being experienced in the industry. The model can be summarised as seeking to achieve the following in the film industry:

> Create a skills base of professionals (focusing on current scarce skills identified) in the film sector within a period of three years in KZN;

> Promote the transformation agenda by training individuals from the previously disadvantaged background to a professional level where they can participate at a Head of Department position and remain in KZN;

> Develop a team that will focus on developing local quality content which talks to local audiences (local stories) and local broadcasting quotas;

> Invest in a group of KZN filmmakers who will be recognised both nationally and internationally;

> Focusing on programmes that will promote KZNFC as a brand, particularly reaching communities that have been previously marginalised.

In February 2018, a total number of 32 graduates were inducted into the FITI programme. The programme has three phases. Phase one of the programme will focus on advanced script writing, concept development and screen play development. There will be two industry experts who will facilitate the training programme. Phase two will focus on film production. The training will be facilitated by a senior producer. Phase three will focus on marketing and distribution as key aspects of film production value chain.

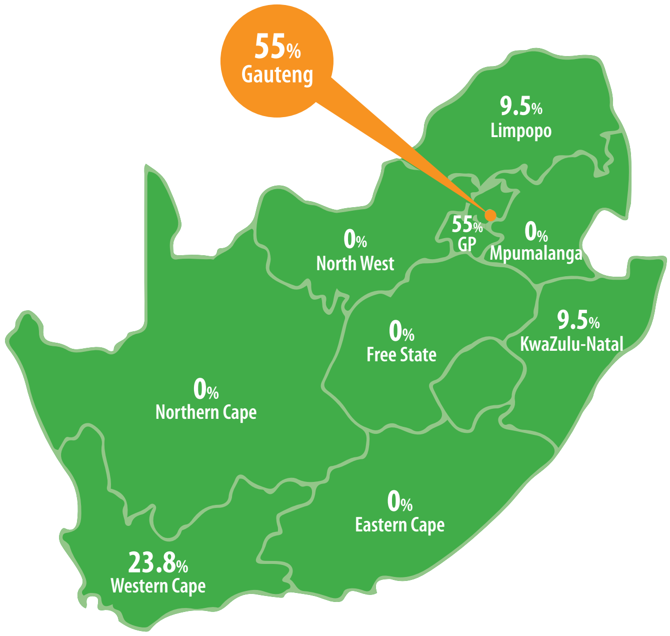
Performance Environment - External

The film industry in KwaZulu-Natal has shown a significant growth since the operations of the Film Commission began in 2013. The industry participants have grown in numbers, there is more coordination and the infrastructure in a form of Cluster is now available for industry use. In 2017/18 financial year, there were a number of productions that did well in different platforms that were shot in KZN.

However, in general, the local productions are still facing challenges in competing with foreign productions in local box office and in other platforms. A study conducted by NFVF (Jan, 2018), found that the South African productions recorded R45,2 million at box office during the 2017/18 financial year, this was a 35% decline compared to the previous year. Locally produced films have been struggling to compete with the increased inflow of foreign film releases, as foreign films are better received by the South African audience. The box office revenue performance of domestic films is worrying as the loss of revenue deprives filmmakers of the opportunity to break even and make profit. Lack of support for locally produced films is a serious concern.

A total of 222 films were released in the year under review, of which 23 of those films originated from South Africa. There are a number of reasons that are contributing to this scenario. These include; quality of the movies that are produced, lack of funding, lack of support to the locals throughout the value chain etc. With a release of 23 South African produced films, the market share of the local productions dropped significantly from 6% in the previous year (2016) to 4% in the year under review.

South African Film Sector Overview, 2017



> Film business and operations are largely located in Gauteng and the Western Cape.

> Equity funding is prominent (mostly government based).

> Feature films and documentaries are most commonly produced in South Africa.

> South African film products are exported most frequently to the USA, Europe and Africa.

Nature of Funding

Equity Funding	Commission	Pre-sale	Gap Funding
32.4%	15.5%	15.5%	15.5%

Segment of Film or TV industry

Feature Film	Documentary	TV Series	TV Films	Animation	Short Films
27.3%	27.3%	15.2%	11.1%	3.0%	13.2%

Export Quantity to Country

Asia	USA	North America	South America	Europe	Africa
4.2%	25.0%	16.7%	4.2%	25.0%	25.0%

Source: Economic Impact Assessment of the South African Film Industry (NFVF, 2017)

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 (KZN represents 9%). The factors that have been identified as inhibitors or barriers to the KZN film sector are;

- lack of skilled crew and infrastructure
- Lack of large local market
- Local films not well distributed
- Limited access of films to most of the population
- Small talent pool – especially limited scriptwriters and artists
- Lack of community support for film shoots

The challenges mentioned above inform the strategies of the Commission and for the past four years have targeted interventions aligned to these issues.

International Perspective (Africa)

Nigeria

In terms of Cinema market, box office revenue is expected to increase to reach U$20 million by 2021 from a compound annual growth rate of 8%, this is a substantial increase from U$13 million achieved in 2016. Also, forecasted growth expects the number of screens to increase from 5 x 3D screens in 2016 to 11 x 3D screens in 2021.

In terms of the television market, revenues amounted to U$810 million in 2016, the majority of which was by pay-tv with 63.8%. This share will slightly decrease in 2021 as the television advertising revenue is beginning to contribute more significantly. Strategies taken to maintain the number of consumers is by offering products and special services for established consumers; with smaller markets, the focus is on acquiring new consumers by low cost services. According to PwC, the revenue will increase to U$1 billion by 2021.

Kenya

In terms of Cinema market, the market is relatively small, however, box office revenue is expected to have a stable growth between 2017 until 2021, where cinema revenue of U$4.4 million gained in 2016, and the compound annual growth rate is expected to reach U$7.8 million in 2021. In order to stabilise its growth, it is recommended that the cinema advertising revenue would receive greater emphasis; as revenues gained in 2016 was U$1 million according to PwC (Report, 2018). However, it is expected that advertising revenues will increase to U$2 million. The driving force behind its stability is the affordability of admission for its consumers.

In terms of the television market, the revenue produced was U$532 million in 2016, with the majority of the revenue relating to advertising revenues with 64.4% in 2016. According to PwC, with a compounded annual growth rate of 7.8%, the revenue is expected to be at U$772 million by 2021. Pay-tv has not contributed substantially with advertising revenue registering only U$162 million in 2016, however, with the compounded annual growth rate of 6.7%, the revenue is expected to increase to U$224 million in 2021. Strategies used to maintain consumers is the same as Nigeria, where the market offers products and special services for established consumers. With smaller markets, the focus is on acquiring new consumers through low cost services.

Key Policy Developments and Legislative Changes

With the approval by the Cabinet that KZNFC should merge with KZN Tourism, there are key policy and legislative changes that are envisaged to be undertaken in the coming financial year 2018/19. The modalities of the processes are being unpacked by the work streams that have been established.

Strategic Outcome Oriented Goals

The KwaZulu-Natal Film Commission sought to achieve the following strategic outcome oriented goals for 2017/18:

- 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 KZNFC, create value to the economy, society and to the environment in line with King IV 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 as they are the most vulnerable and marginalised in our society. KZNFC further provides skills development programmes to ensure that the industry has people who are skilled and who would be able to retain the film business in 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. A study was commissioned to assess firstly, how film impacts on the environment and secondly, what measures can be adopted to reduce the carbon footprint. This study will be concluded in 2018/19 financial year.

To conclude, despite the capacity constraints, the Commission has performed well during the year and continues to deliver its programmes to the film industry.

Performance Information

PROGRAMME ONE: CHIEF EXECUTIVE OFFICER'S OFFICE

Programme Purpose

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

Functions co-ordinated under this programme include:

- Development of strategies, policies and standards of performance.
- Development of 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 engagement to enhance relationships, encourage local production and to ensure 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.
- Oversee the Internal audit function and risk management of the organisation.
- Conducting research designed to inform future programmes of the organisation
- Managing the Corporate Social Responsibility programme for the organisation.

KEY PERFORMANCE INDICATORS, PLANNED TARGETS AND ACTUAL ACHIEVEMENTS

High Level Review of Performance Information

Programme and Strategic Objective: To operate effective administrative business processes inculcating Good Governance, Risk and Compliance					
Performance Indicator	**Actual Achievement 2016/17**	**Planned Target 2017/18**	**Actual Achievement 2017/18**	**Deviation from planned target to Actual Achievement for 2017/18**	**Comment**
Number of research papers that provide sector data	4**	4	4	-	The target was met. Four research papers completed were on: Audience Development, Animation industry in South Africa, KZN disability baseline data and the impact of the web hosting sites on the film industry.
Number of M&E reports on the KZNFC programmes with key recommendations for improvement	6**	4	6	+2	The target was exceeded. There were six M&E reports completed for the annual year: these were "3 days to go" Production, Director's training programme, Simon Sabela "Mabhunu" Awards 2017, NEMISA: Technical training, "Deep End" and "Love Lives here" productions.
Number of strategic partnership signed to reduce film production costs KZN	4	4	12	+8	The target was exceeded. Twelve MoUs were signed namely: MICTSETA, Capturevate, Durban Marine Theme, Grange gardens Hotel, Stained glass TV, Gooderson Leisure, Smartxchange, Tsogo Sun Hotels, The KwaZulu-Natal United Music Industry Association (KUMISA), Certelle NPC, SABC and Hart Media PTY LTD. Most of these MoU's were initiated in the previous financial year. Hence, the over achievement on the target.

*** The actual achievements came from the previous performance indicator that was: Number of research/monitoring and evaluation papers produced, in 2016/17 annual financial year. In 2017/18, the performance indicator was split into two separate performance indicators to measure targets and track performance.*

Research Projects

There were four research projects that were undertaken during the financial year under review. The research on audience development looked at the consumption of filmed content in KZN. The paper profiled the common genres amongst the population of KZN. It also profiled the cinemagoers in terms of their age, gender, races and their disposable income that they are willing to spend in the cinemas. This information is important for KZNFC as a funder for filmmakers. Likewise, it is important information for filmmakers themselves as they have to understand the preferences and needs of their audience. The research on animation in South Africa, looked at the size of the animation industry and its prospects for growth in future. It also looked at the infrastructure that is needed for the industry to be sustainable, particularly in KZN. The research on the web hosting sites looked at the impact of the web hosting sites as exhibitors of filmed content. The platforms offered by companies such as Showmax and Netflix have disrupted the conventional platforms such as cinemas and TV and the question is where to next? The paper tried to look at the trends and how the web hosting sites are able to utilize the new space. The KZN disability baseline research was intended to identify the challenges that are faced by the community with disability and highlight areas that KZNFC should focus on to assist.

Monitoring and Evaluation

There were six M&E reports completed during the financial year. These were; 3 days to go, Director's training programme report, Simon Sabela "Mabhunu" Awards 2017 monitoring and evaluation report, NEMISA: Technical training Report, Deep End and Love Lives Here. M&E reports were written for each project that was evaluated. The reports were discussed with the project managers and the management to ensure that there is information sharing and learning on the outcome of the evaluations that will improve service delivery going forward. The key recommendations will be implemented and tracked over the years.

PROGRAMME TWO: FINANCE AND ADMINISTRATION

The core activities of this programme relates 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 resource 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
> Facilities management
> Business facilitation to attract investments

KEY PERFORMANCE INDICATORS, PLANNED TARGETS AND ACTUAL ACHIEVEMENTS

Programme and Strategic Objective: To operate effective administrative business processes inculcating Good Governance, Risk and Compliance					
Performance Indicator	**Actual Achievement 2016/17**	**Planned Target 2017/18**	**Actual Achievement 2017/18**	**Deviation from planned target to Actual Achievement for 2017/18**	**Comment**
Achieve a clean audit on financial, compliance and performance information	Unqualified report for 2016/17	Unqualified	Unqualified - with no material findings	-	Unqualified, with no material findings (Clean Audit) was achieved in July 2017.
Percentage of total procurement spent on B-BBEE service providers	108%	100%	112%	+12%	The target was exceeded due to the KZNFC's efforts to continue throughout the year to contract with B-BBEE suppliers.
Percentage of valid invoice paid within 30 days	New indicator	100%	100%	-	The target was met. KZNFC ensured that all suppliers with valid invoices are paid within 30 days.
Vacancy rate on approved staff complement	16.12%	10%	38.89%	+28.89%	Filling of positions remained unachieved throughout the year as the request for approval had been submitted to the MEC EDTEA, MEC Finance and KZN Premier for approval. KZNFC received approval at the end of the financial year, recruitment will commence in 2018/19 financial year specifically during the first quarter.
Percentage of approved training attended and completed	100%	100%	82%	-18%	The target was not met as service providers were unable to recruit enough learners. However, additional training was undertaken over and above that contained in the approved plan.

The Finance and Administration Business Unit had a vacancy rate of 53% during the year under review. Interventions were implemented to mitigate the risk of non-compliance and service delivery to the entity. External service providers were sourced in critical high-risk areas to ensure there was no compromise on quality. The business unit had five (5) annual performance targets. Three targets were achieved, in which one was over achieved. The over achievement is related to the B-BBEE target. The entity has ensured that the approved Transformation Policy has been implemented, which includes the supplier spending on B-BBEE compliant suppliers. The target has largely been on procuring on service providers that are between level 1 and level 3. This has enabled the entity to achieve a B-BBEE spending of 112% using the DTI calculation rate against the target of 100%. A number of training initiatives were identified by the entity through Individual development plans and through the analysis of skills required during the year under review. Where gaps were identified, further training was implemented. The under achieved target relates to the vacancy rate, which had a target of 10%, however the entity achieved 38.89% due to the KZNFC not being able to fill vacant positions, while awaiting the approval from the MEC of Finance, MEC of EDTEA and from the KZN Premier. The approval was however, received on the last quarter of the year under review, with seven critical position being approved.

During the year, the entity implemented an Enterprise Resource Planning (ERP) system which was operationalised on the 1st October 2017. The ERP system has enabled the entity to implement automated workflows, which includes electronic data storage of documents. The system has improved the internal controls and reduced the potential manual errors.

The entity had fourteen interns and trainees on the internship programme in the year under review. The internship programme is a twenty-four months programme, which includes on the job training and skills development training programmes.

In 2017/18 financial year, the entity spent 86% of the allocated budget and fully committed the 14% budget that was unspent. The commitments relate to the contractual funding of development and production projects, research projects and capital projects.

Revenue Generation

KZNFC completed the construction of the Film Cluster in 2016/17 financial year and it was officially launched on 27th March 2017. The Film Cluster is an integrated facility aimed at enhancing the value chain of the KZN film industry. KZNFC has identified the Film Cluster as the core revenue generation through the following mechanisms:

> Leasing of private office to local filmmakers
> Hire of Equipment
> Hire of Edit Suites
> Hire of training room, Hot Desks and Resource Centre
> Hire of Sound Room with fully equipped recording booth

As at the 31st of March 2018, KZNFC has received R299 169 through tenants renting office space in the KZN Film Cluster and R9 675 through rental of cluster equipment by filmmakers. KZNFC had 8 production companies renting the cluster by the end of the 2017/18 financial year.

KZNFC was also able to generate additional revenue through the following avenues:

> **Interest –** KZNFC earned interest from both investment and current account.
> **Recoupment –** received from the recoupment of KZNFC funded projects that have been profitable.
> **Other Income –** revenue received from the purchase of tender documents, Recovery account (lost discs), Recycling of paper and other sundry income.

PROGRAMME THREE: MARKETING AND INDUSTRY DEVELOPMENT

Marketing and Industry development falls under the Chief Operations Officer. The Business Unit is tasked with positioning the KwaZulu-Natal province as a location for film, as well as positioning the KwaZulu-Natal Film Commission as a leading film commission in the African market.

Programme Purpose:

The main purpose of the Chief Operations Officer'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 at 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 identification and promotion of 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.
> Development of the film protocol and guidelines on how to do business in KZN.

KEY PERFORMANCE INDICATORS, PLANNED TARGETS AND ACTUAL ACHIEVEMENTS

Programme Objective:
> 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.

Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from planned target to Actual Achievement for 2017/18	Comment
Strategic Objective: To secure strategic investment through facilitation and promotion into the filming industry in KZN					
Number of direct jobs created as a direct result of the film fund	New indicator	150	123	-27	427 jobs were created in the 2017/18 financial year, however only 123 jobs are claimable based on actual expenditure incurred for the financial year. The target was not achieved.
Number of projects funded through KZNFC	35	25	60	+35	Target was over achieved through the partnership funding from EDTEA and savings in other programmes. There were 37 projects selected for development, 11 for production, 8 heritage projects and 1 post-production.
Strategic Objective: To implement interventions that drive transformation, diversification and service excellence in the film industry					
Number of information sharing sessions with HDI groups regarding opportunities in the film industry	35	25	26	+1	The target was exceeded due to partnerships where existing platforms could be shared, thereby increasing the number of sessions.
Number of audience development initiatives with HDI groups	New Indicator	8	8	-	The target was met.
Strategic Objective: KZN has a strong human capital base throughout the value chain through SMME development and training					
Number of new businesses supported through incubator programmes focussing on small, medium and micro business enterprises	10	11	19	+8	Target was exceeded as a result of more companies than expected applying and qualifying for the program. In addition, funding was received from EDTEA allowing a further 5 youth owned companies to participate in film & Television incubation programme.
Strategic Objective: To support Human Capital Development in the Film Industry					
Number of people trained through the value chain in the Film industry	0	75	146	+71	Target was exceeded due to two training programmes that were carried over from the previous financial year 2016/17 (trainees), and this resulted in a larger number of people who completed trainings.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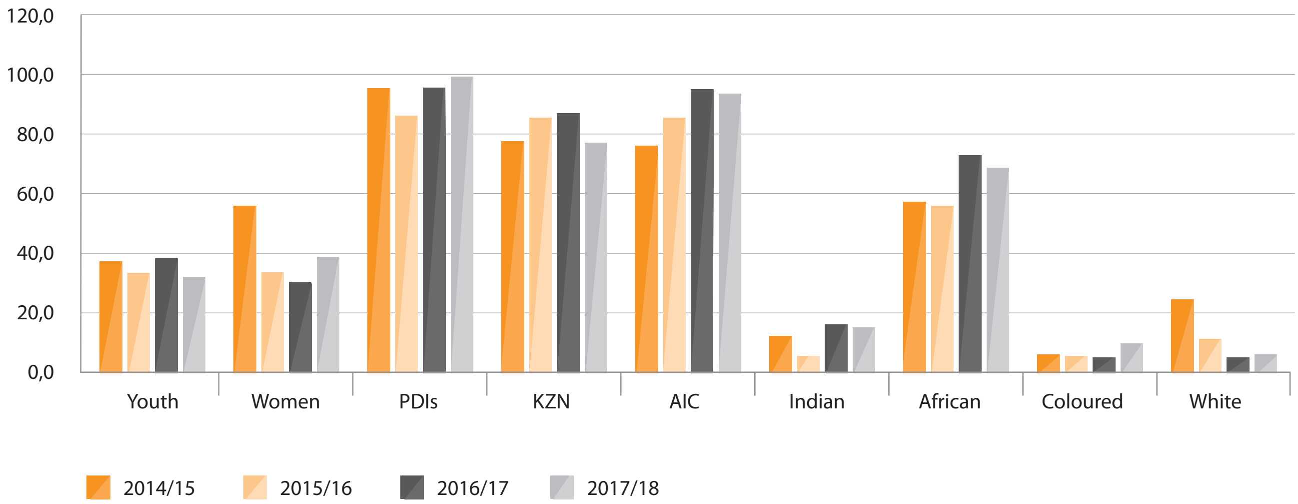
Production Funding

The film fund increased the number of projects in the period under review as a result of a call for heritage projects and partnerships with Viacom and the Department of Economic Development, Tourism and Environmental Affairs (EDTEA). Two of the funded projects were exhibited on MTV and BET through the Viacom partnership. This ensured that our filmmakers have access and exposure to international markets. The highest growth during the year was in development projects, where 37 projects that were approved so as to create a large pool of projects to choose from when looking for future production projects to fund.

In line with the KZN provincial film strategy, four of the projects in development were in the area of animation. Animation has been identified as an import sector for the growth of the industry and creation of jobs for youth. In an attempt to strengthen co-productions within the continent, one project in development was funded under the category. The project was as an outcome of the interactions that happen during the Nigerian Film Market. Also, the 2017/18 financial year saw the progression of some of the projects that were in development in the previous year, moving on to production. There were three such projects out of the nine projects that were in production during the financial year, and these were; Road less cycled, Made in Africa and Light of Five.

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



Film Fund Performance

The film fund is designed as a development tool that seeks to encourage participation of designated groups in the KZN film industry space. In the 2017/18 financial year, 98% of the beneficiaries of the film fund came from previously disadvantaged individuals and 93% of them were Black. Almost, 77% of the beneficiaries of the film fund were from KZN. Five of the nine approved production projects were from female applicants. With the majority of the beneficiaries being KZN residents, the economic spin-offs of the fund and the economic multiplier contributed to the GDP of the province. In total, the KZN Film Fund invested just over R7.5 million in production projects with a combined total budget of all projects coming to R25 million and economic impact of R72 million.

Markets and Festivals Funding

As part of KwaZulu-Natal Film Commission's mandate, the entity creates enabling environments and platforms where local filmmakers can interact with other filmmakers and engage on possible co-production opportunities, as well as to secure foreign funding. KZNFC has a Markets and Festivals fund which supports filmmakers to participate in film festivals across the globe. In the financial year of 2017/18, KZNFC funded almost twenty-one filmmakers to both local and international markets and festivals which included; African International Film Festival, Independent Black Film Collective, Pan African Film Festival, Delhi and Cape Town Animation Film Festival.

Markets and Festivals Supported

Furthermore, KZNFC supported nine Markets and Festivals. This support is part of audience development initiative that seeks to grow and retain audiences for locally produced content. Local content is screened in various communities across the province to enhance consumer loyalty as well as create an awareness of the opportunities in the sector. Projects funded under this fund for the 2017/18 period were as follows:

> Africa Television Market (Taste for TV)

Africa Television Market is an initiative of Mindset Concept Production House, which takes place parallel to the Durban International Film Festival in the month of July. In 2017, the KZNFC partnered with Mindset Concepts to bring the show, Taste for TV in the programme which is a cooking show meant to air on MTV.

> Durban International Film Festival (DIFF)

The Durban International Film Festival is the longest running film festival in the country. In 2017/18, it celebrated 39 years of its existence. The festival attracts filmmakers from across the globe and has a range of programmes dedicated to the growth and transformation of the local film industry. The programs include: Durban FilmMart, DIFF Industry programme, Talents, Schools Programme and Community Outreach. The KZNFC partnered with DIFF in the 2017/18 financial year, to ensure that the film industry is fully supported and Durban is marketed as a film destination of choice. Also, in attendance were delegates from Kenya funded and hosted by KZNFC.

> Interpret Durban

Interpret Durban is an arts festival which has been in existence for nine years and it takes place every year in September. The festival introduced a concept of the KZNFC lounge where locally produced films are screened to the festival audience. Interpret Durban allows the KZNFC access to a very unique segment of the market.

> Ugu Film Festival (UGUFF)

Ugu Film Festival takes place on the South Coast of the province. The festivals target emerging filmmakers under Ugu District Municipality and activations are held in the local municipalities across the District. The festival format comprises of training as well as daily screenings. KZNFC has seen this festival as an opportunity to grow local audience, hence, we fully support it.

> Cineculture

Cineculture is an initiative of Mercurial Pictures. Mercurial Pictures is one of the companies that participated and partnered with the Essence Festival and conducted mini festivals within the festival. The festival was characterised by screenings as well as masterclasses. The focus area for the festival in 2017/18 financial year was Umlazi Township. KZNFC supported this festival because of its focus area and its target market.

> Black Centred Film Festival (BCFF)

The BCFF is a film festival that was launched in the Amajuba region of KZN. The festival programme comprised of trainings and masterclasses as well as community screenings.

> KwaZulu-Natal Africa Film Festival (KAFF)

KAFF is the longest running African film festival in the province which has since introduced satellite in the North Coast area of the province. The success of KAFF has seen the birth of two new film festivals in the uMkhanyakude and King Cetshwayo District Municipalities. These are the **uZulu Film Festival** as well as **KwaSukasukela Film Festival** which were part of the KAFF mentorship programme.

> Marketing and Distribution Funding

During the 2017/18 financial year, KZNFC supported the following three projects for marketing and distribution; The Killing Floor, Beyond the River and Keeping up with the Kandasamys. About R270 000 was spent for this purpose.

Audience Development

The KwaZulu-Natal Film Commission partnered with various film festival owners as well as other key stakeholders in an effort to develop, grow and retain audiences for locally produced content. The following are the community screenings that were held in 2017/18 financial year.

Project	No. of Screenings
Cine Culture build-ups > Edendale Mall > Umlazi Mega City	2
Durban International Film Festival	35
Ugu Film Festival	2
Movie Thursdays	3
KwaSukasukela	7
DAC/KCAP	1
BFI LONDON	1
KAFF	2
Uzulu Film Festival	2
DIFF Activation - Musgrave Roof Top	1
African Emerging Film Makers Awards	3

Industry Development Interventions

There were a number of information sharing sessions that were arranged for filmmakers throughout the province. These included: an information sharing session with the Film and Publication Board, session on KZNFC training programmes and sessions conducted by SARS on business tax.

Simon Sabela Awards

The Simon "Mabhunu" Sabela Film and Television Awards are an initiative of the Department of Economic Development, Tourism and Environmental Affairs and are implemented by the KwaZulu-Natal Film Commission. The purpose of the awards is to reward and acknowledge excellence in film and television as well as demonstrate growth and position KwaZulu-Natal as a growing film industry.

In 2017, the event attracted major corporates such as Unilever, who sponsored all the female categories to the maximum value of R10 000 cash prize per category. This was in line with the "I am beautiful" Lux campaign targeting women market. Unilever also sponsored lovely hampers which were delivered to all female winners. The awards were attended by the crème de la crème of the film and television industry including celebrities and representatives from the African continent such as Kenya and Nigeria, as well as government officials from other provinces. There were twenty categories for different talents within the film industry. The event was attended by over six hundred people, the majority of which were DIFF delegates. The event cost about R6.4 million to host.

Highlights

Kenyan Delegation

Awards

KZN Locations

In the 2017/18 financial year, the entity continued to build partnerships with Municipalities. There were formal partnerships that were entered into with the Ugu, iLembe, King Cetshwayo and Umkhanyakude District Municipalities. These partnerships assist in ensuring that filmmakers experience seamless product offerings. The partnerships also help to market the province and a much more coordinated manner. The locations and facilities department managed to compile comprehensive list and photographs of locations according to municipalities. Also, a crew database was developed to assist filmmakers who come to the province looking for people to assist them in their projects.

Highlights of movies supported during the 2017/18 financial year

Keeping up with the Kandasamys

Shot in Durban, the movie Keeping Up with the Kandasamys, which tells the story of two rival families, the Kandasamys and the Naidoos. The movie was so successful as a local production in that it earned R16 million in the first 12 weeks on screen. The film became the top South African movie in revenue generation in the box office for year 2017. The movie managed to make the province of KwaZulu-Natal a film and entertainment hub. The entire cast of the film was from KZN. On the crew side, 70% of them were KZN residents. During the shoot, most of the goods and services were procured locally. The KwaZulu-Natal Film Commission supported the project with R1.2 million. There were about 76 (63 crew and 13 cast) people who were directly employed on this project. A total amount spent in KZN was about R4.5 million. As a result of its success, KZNFC recouped its investment.

Beyond the River

The film is based on a true story of the sporting partnership between Piers Cruickshanks and Siseko Ntondini. The film was screened on the local cinemas and at one time during the year it was the second highest South African revenue-generating movie on the box office. The movie was also screened at international film festivals such as the Sonoma Film Festival in California. The film was also nominated for four SAFTAs (and won one for cinematography). An extraordinary invitation was also extended to the original duo (Cruickshanks and Ntondini) to address the Los Angeles World Affairs Council – an influential and connected audience – on the experience of their involvement in the film and its significance in the South African context. Also, important to mention is that this film used English and isiZulu languages, something that KZNFC is proud of and would like to promote going forward. KZNFC supported this production with an amount of R200 000.00. There were 94 (69 crew and 25 cast) people who were directly employed on this project.

Gracie

Gracie is a short film that has been shot in various locations in Durban and Pietermaritzburg. This is a fictional musical drama with a twist, narrated in present time, by an adult Grace and shows the relationship between two sisters, the Protagonist, Jeanie and her soft hearted sister, Nombu.

The film won gold at the sixth Delhi International Film Festival in 2017. The film was also screened at the Cape Town International Film Market and Festival in October 2017, is narrated by an older Gracie, voiced by Sibongideni Shezi, who reflects on her childhood in Durban. Naledi Makhatini plays Gracie. KZNFC supported this production with an amount of R400 000.00. Over 90% of the budget was spent in KZN. There were 38 people who were directly employed in the project.

The Number

The film was shot in various locations in KZN. The film is about a gangster, a vicious inmate that loses his world but regains his soul as his experience and activities turns him and makes realises that he wants out of the gang and then helps warden to reform the prisons. KZNFC supported the production with an amount of R1.2 million. The film was screened at Toronto International Film Festival in September 2017. The film also captured the audience during the 14th KZN African Film Festival (KAFF) in KwaMashu. There were about 74 (59 crew and 15 cast) people who were directly employed in the project. The Number will be released in cinemas, early 2018.

MMA Programme

During the 2017/18 period, the support provided to SME's by the Maxum Media Accelerator programme has been highlighted as follows:

The programme provides a platform where SME's can address and seek support in the challenges they experience during application, contracting and production execution of their projects. This includes:

- Support during application phase with the focus being on writing proposals, realistic budgeting, realistic time frames for execution and organising of application documentation.
- Support during contract phase, both with funder and with project staff, crew and talent. A highlight was the Deep End film project during which the MMA team supported the producer with challenging issues from the start through to post production.
- Conflict resolution between SME and service providers. The MMA team has been involved in various conflict resolution incidents between SME and editor, supervising producer and co-producer.

The Film Commission technical workshops (filming, directing, etc.) was of great value to the MMA programme as it allowed the programme to focus on company growth issues and not on skills transference.

The financial year 2017/18 was the last year for MMA, going forward, Human Capital Development will run further incubation programmes targeting women and youth owned companies throughout the value chain.

Bursary Scheme

In 2017/18, KZNFC supported twenty-five students studying film related courses in tertiary institutions within KZN, mainly at Durban University of Technology (DUT) and AFDA (School of motion picture and performance). The students comprised of thirteen male students and twelve female students (100% PDI). Nine students completed their studies and graduated at the beginning of 2018.

Training Programmes

The Human Capital Development department implemented a number of training programmes in the 2017/18 financial year. These were: Film and Television Technical Production done in partnership with NEMISA, SEDIBA Spark Screenwriting, Camera and Lighting, Directors' Programme, Sound Production and Production Accounting. These were all held in Durban, however, the trainees came from throughout the province with KZNFC providing accommodation.

Camera and Lighting Training

The programme took place during 29th January – 02nd March 2018. A total number of 17 students completed the programme. Certificates of completion were issued out to candidates who completed the programme. A prize giving ceremony for the students who completed was held on the 13th of April 2018. The students had to film their own short film as their assignment. The top four students with the top four films received cash prizes sponsored by Video Vision.

Film and Television Technical Production Training

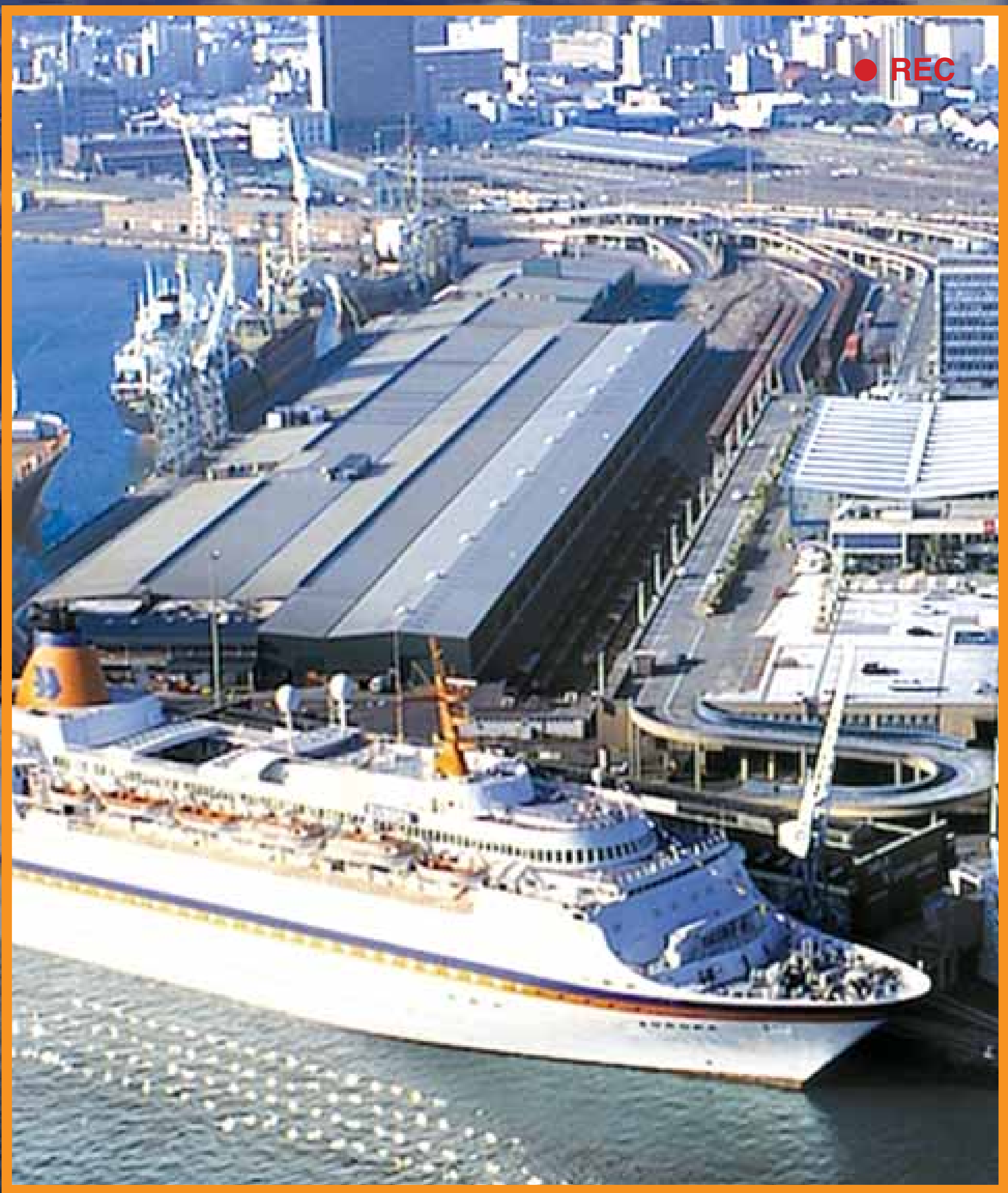
This training programme started with 31 candidates on the 12th of November 2016 and continued up to 15th July 2017. However, only 19 participants completed the course and were deemed competent with a NQF Level 4 Film and TV Production Operations qualification, which were accredited by MICTSETA. The KwaZulu-Natal Film Commission held a graduation ceremony on the 20th of April 2018 for the students.

Sound Production Training and Production Accounting Training

The Sound production training took place from the from from 5th to 16th February 2018 with 30 candidates. The Production Accounting training took place from the from 5th to 16th March 2018. with 28 candidates. The certification for these two programmes will take place on 10th May 2018.

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 on 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). KZNFC was invited by various oversight bodies to present its progress on its APP targets and its strategic plan and its annual report during the year. The executives attended one Finance Portfolio Committee meeting during the year to present the Annual Performance Plan for entity.

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 organisation. The Board has a strategic function in providing the vision, mission and goals of the organisation. 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 organisation;

> Fiduciary duty to protect the interests of the shareholder; and

> Recruitment of the CEO.

The details of the Board members appointed by the MEC for Economic Development, Tourism and Environmental Affairs 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 45-55 and 76.

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. For the 2017/18 financial year, the following areas were identified as high risks areas:

a) Rationalisation of Public Entities

The rationalisation process of Public Entities has created an atmosphere that is filled with uncertainty into the future structure and mandate of KZNFC. This has led to low staff moral and resignations.

b) Lack of Industry Co-ordination

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. KZNFC mandate carried out by other entities/departments.

c) Limited Growth and Sustainability of Durban International Film Festival

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

d) Infrastructure Inadequacy

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

e) IT Business Continuity

Information technology is an important business support system to an IT driven sector like the film industry. Lack of inadequate IT infrastructure is a high risk to the KZNFC as it becomes unable to compete with the other film commissions in the country.

f) Limited skills Attraction and Retention (within KZNFC)

The film industry depends on people with specific skills and expertise to drive it. The research has revealed that there is a gap between what the tertiary institutions produce and what the industry need. Also, there are perceptions that the film industry has low returns and is not profitable as a career. This therefore adds to the low number of people who are interested in pursuing studies in the sector. Therefore, there is a risk in business continuity due to a limited pool of people with knowledge and skills to drive the film industry.

g) Inadequate Advocacy for Industry Transformation

Like in all other sectors, the film sector remains untransformed. There are barriers to access resources and funding in order 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 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. Risk officers for each business unit were appointed and attended various training programmes to ensure that they are adequately equipped.

Financial Statements

The Audit and Risk Committee (ARC)

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 HTB Consulting. They undertook the following audit assignments, with management implementing all recommendation and actions as agreed with the internal auditors:

a) Interim and Annual Financial Statements Review

b) Supply Chain Management

c) Asset Management

d) Performance Information

e) IT General Control and ERP System Reviews

The Audit and Risk Committee shall:

- Consider the effectiveness of the organisation'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 committee 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 Audit and Risk Committee 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 organisation'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.


REC

PART D:

Human Resource Management

INTRODUCTION

KZNFC's approved organogram has thirty-six positions. The entity had a 38.89% vacancy rate. During the year, the entity was unable to fill the vacancies due to the moratorium on filling of permanent posts until the rationalisation process is completed. The entity received the approval of seven critical posts from the KZN Premier in March 2018.

In order to provide the leading HR services that attract, sustain and inspire excellence on employees in support of the KZNFC Strategic Plan, the HR & Development Strategy was Implemented. The strategy is based on the identified budgeted and prioritised initiatives. Challenges were, however, experienced with the implementation due to the lack of capacity within the Human Resources and Management Unit, where the entity has a 100% vacancy rate. These challenges have been mitigated to a limited extent through the sourcing of external service providers.

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 the CEO	7 449	3 939	53%	4	984.75
Marketing & Industry Development	62 691	7 567	12%	12	630.58
Finance & Administration	15 201	5 067	33%	6	844.50
TOTAL	**85 340**	**16 573**	**19%**	**22**	**745**

The entity's personnel costs were 19% of the actual operational costs for the year under review. The 19% was due to the KZNFC having vacant positions that were not filled during the year under review.

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	5 063	31%	3	1 688
Senior Management	3 770	23%	3	1 257
Professional qualified	3 590	22%	5	718
Skilled	3 969	24%	11	361
TOTAL	**16 392**	**100%**	**22**	**745**
Internship	1 049	-	13	81
Top Management	-	-	-	-
Senior Management		1	2	2.78%
Professional qualified	1	1	2	0.00%
Skilled	1		1	2.78%

The entity contracted employees in critical areas, due to the entity being unable to fill vacant positions in the year under review in line with the Treasury circulars.

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	2	-	-	-	1	-		-			3
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	2	-	-	-	3	-	-	-	-	-	5
Semi-skilled and discretionary decision making	3	-	-	-	7	-	1		-		11
TOTAL PERMANENT	**8**	**-**	**-**	**-**	**12**	**-**	**1**	**1**			**22**
Temporary employees (Interns)	4	-	-	-	9	-			-	-	13
GRAND TOTAL	**12**	**-**	**-**	**-**	**21**	**-**	**1**	**1**			**35**
EQUITY %	**49%**				**51%**						**100%**

The equity total includes all employees that were employed by the entity as at 31st March 2018.

Employment and Vacancies

Programme	2017/2018 Approved Posts	2017/2018 No. of Employees	2017/2018 Vacancies	% of Vacancies
Office of the CEO	6	4	2	33.33%
Marketing & Industry Development	17	12	5	29.41%
Finance & Administration	13	6	7	53.85%
TOTAL	**36**	**22**	**14**	**38.89%**

Programme/activity/objective	2017/2018 Approved Posts	2017/2018 No. of Employees	2017/2018 Vacancies	% of Vacancies
Top Management	3	3	0	0.00%
Senior Management	8	3	5	62.50%
Professional Qualified	12	6	6	50.00%
Skilled	13	10	3	23.08%
TOTAL	**36**	**22**	**14**	**38.89%**

The reassignment of work was required with managers and executives taking on additional operational responsibilities. Business processes were re-engineered with all staff taking on additional responsibilities as an effort to provide more exposure and development but also to ensure that adequate segregation existed and service delivery continued. This is not sustainable and the need to fast track the rationalisation is key. Shortcomings were identified by internal audit which can be linked directly back to the lack of capacity and impact on quality reviews.

Levels	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top/Senior Management (Executives)	2.78%	3%	0%	0%	0%	0%	0%	0%
Professional qualified (Managers)	5.56%	3%	0%	3%	0%	0%	0%	0%
Skilled & Semi skilled (Specialist & Clerical)	13.89%	37%	0%	3%	0%	0.00%	0%	0%
Internships: out of 14 KZNFC interns 5 were African males	5							

The organisation has not been able to address any of the targets as no posts could be filled during the year. However, the targets are achievable with focus also shifting to ensure disabled employees are hired.

Levels	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top/Senior Management (Executives)	2.78%	3%	0%	0%	0%	0%	2.78%	3%
Professional qualified (Managers)	8.33%	3%	0%	0%	0%	3%	0%	0%
Skilled & Semi skilled (Specialists & Clerical)	22.22%	36%	0%	0%	2.78%	3%	0%	0%
Internships: Out of 14 KZNFC interns, 9 were African females	9							

Summary Target					
Males			Females		
	Target	Actual		Target	Actuals
African Male	41.90%	22.22%	African Female	38%	33.33%
Coloured Male	3.30%	0%	Coloured Female	3.30%	0%
Indian Male	3.30%	0%	Indian Female	3.30%	2.78%
White Male	0%	0%	White Female	6.50%	2.78%
Overall Summary	**49.00%**	**22.22%**		**51.10%**	**38.89%**
Internships: 14	**Males**			**Females**	
African Male		5	African female		9

The total actuals for male and female only consist of the employees that we employed by the entity as at 31st March 2018. The entity had a vacancy rate of 38.89% in the year under review, and therefore was unable to achieve the planned equity targets. The entity has achieved its targets from the onset with substantial female representatives throughout the organisation. The shortcomings have been in coloured demographics as well as disability representation.

Reasons why staff are leaving

Termination type	Number	% of total terminations
Death	0	0%
Resignation	0	0%
Expiry of contract	3	8.33%
Dismissal – operational changes	0	0%
Dismissal – misconduct	1	2.7%
Dismissal – inefficiency	0	0%
Discharged due to ill-health	0	0%
Retirement	0	0%
Restructuring Package (Excess)	0	0%
Medical retirement	0	0%
TOTAL	**4**	**11.11%**

Disciplinary Action

Occupational Category	Male				Female				Total
	African	Indian	Coloured	White	African	Indian	Coloured	White	
Professional qualified (Managers)	0	0	0	0	0	0	0	0	0
Internships	0	0	0	0	1	0	0	0	1
TOTAL	**0**	**0**	**0**	**0**	**1**	**0**	**0**	**0**	**1**

Grievances logged for period 1 April 2017 to 31 March 2018

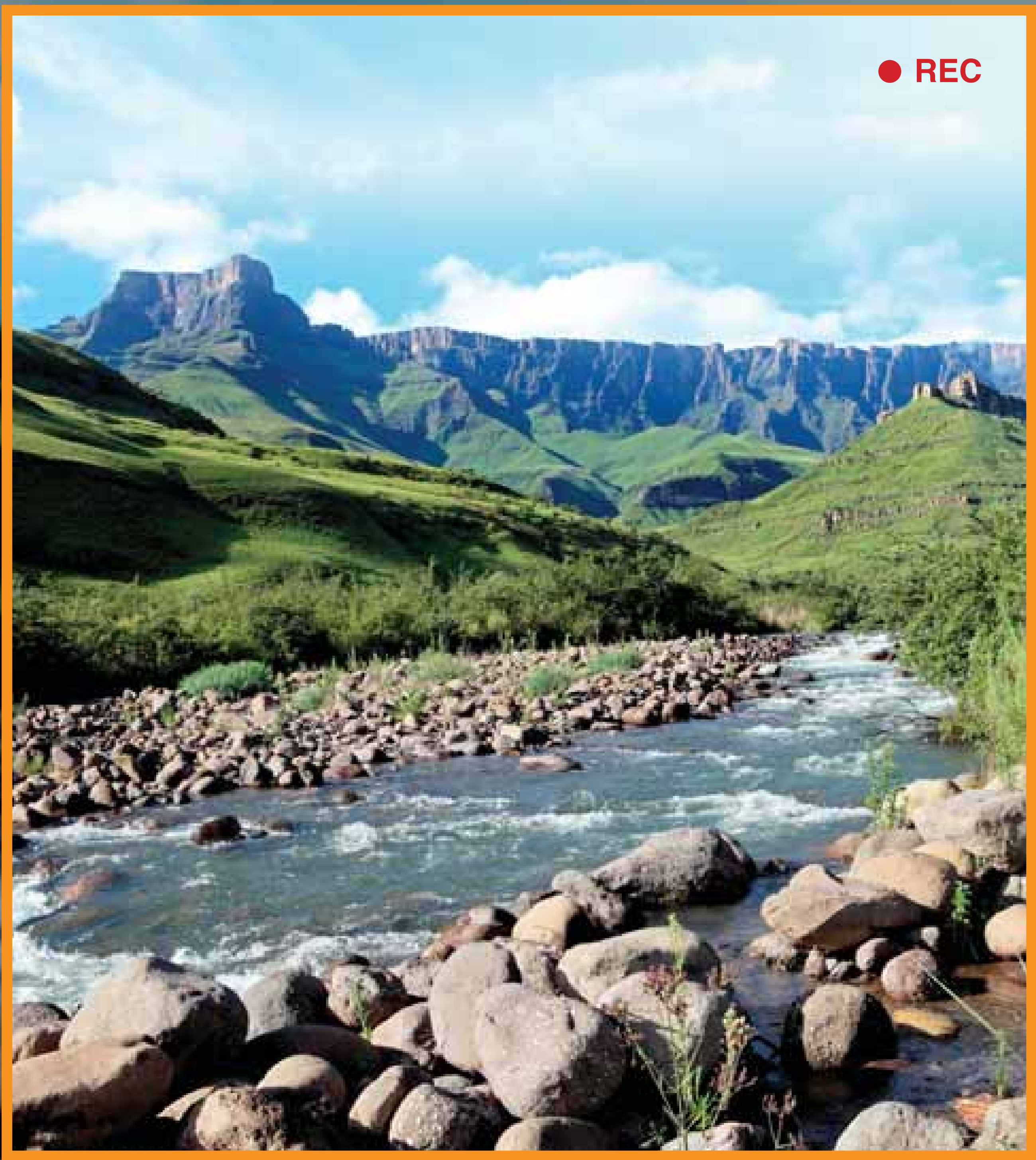
	Number	% of Total
Number of grievances resolved	1	100%
Number of grievances unresolved	0	0
TOTAL NUMBER OF GRIEVANCES ADDRESSED	**1**	**100%**

Training provided for period 1 April 2017 to 31 March 2018

Occupational Categories	Gender		Number of employees		Totals R'000
	M	F		Skills programmes	
Top/Senior management (Executives)		1	1	Film Commission Professional	Online
	1	2	2	Business Process and ERP Training	In-house
Professional qualified (Managers)	1		1	Logic Modelling and Theories of Change	75
		1		Risk Facilitation	59
		1	1	Risk Reporting	40
		1	1	Risk Management for Risk Management	59
	1	5	6	Business Process and ERP Training	In-house
Skilled and semi-skilled (Specialist & Clerical)		1	1	Presentations & Communication	In-House
	2	5		Intermediate Excel	23
		1	1	Risk Facilitation	59
		2	2	Risk Management for Risk Management	59
		1	1	Risk Reporting	40
		2	2	Creative writing in PR	45
		1	1	Public relations campaign planning programmes with impact	58
		1	1	Course design	87
				Interviewing Skills	29
	1	2	3	Advanced Excel	7
	2		2	Report Writing	In-house
	11	6	17	Business Process and ERP Training	In-house
Internships	1		1	Skills development facilitator	5
	1		1	Development of policies and procedures	7
	1		1	Generally accepted accounting principles (GRAP)	Treasury provided for free
	1		1	Moderator	Free training by SETA
	4	5	9	Intermediate Excel	In-house
	1	1	2	Advanced Excel	In-house
	5	8	13	Business Process and ERP Training	In-house
	1		1	20462: Administering MC SQL server database	9
		1	1	Emotional intelligence for women in today's workplace	In-house
	1	2	3	Assessor	Free training by SETA
All Finance Team	**IFRS and GRAP update – Treasury Provided for Free**				

PART E:

Financial Information



(Registration number M3/15/32 (834/15))

Annual Financial Statements

for the year ended 31 March 2018

These annual financial statements were prepared by:
Kealeboga Bogatsu (Chief Financial Officer)

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 and facilitate the development of the industry through strategic initiatives.

Registered office
10th Floor, Musgrave Towers, 115 Musgrave Road, Durban, 4001

Bankers
ABSA

Auditors
Auditor General of South Africa
Registered Auditors

Contents

The reports and statements set out below comprise the annual 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 set out on pages 56 to 87, which comprise the statement of financial position as at 31 March 2018, the statement of financial performance and other comprehensive income, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts 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 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practise (SA Standards of 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 this auditor's 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) and 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 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 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 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 KwaZulu-Natal Film Commission'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 the accounting authority either intends to liquidate the entity or to cease operations, or has 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 the 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 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 this auditor's report.

Report of the Auditor-General to KwaZulu-Natal Provincial Legislature on KwaZulu-Natal Film Commission *...continued*

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 following selected programmes presented in the annual performance report of the entity for the year ended 31 March 2018.

Programmes	Pages in the Annual Performance Report
Programme 3 – Marketing and industry development	26 – 33

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 raise any material findings on the usefulness and reliability of the reported performance information for the programme in paragraph 12 above.

Other matters

15. I draw attention to the matters below.

Achievement of planned targets

16. The annual performance report on pages 18 to 33 includes information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a number of targets.

Adjustment of material misstatements

17. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of marketing and industry development programme. I did not raise any material findings on the usefulness and reliability of the reported performance information as management subsequently corrected the misstatements.

Report on the audit of compliance with legislation

Introduction and scope

18. 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.

19. I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Report of the Auditor-General to KwaZulu-Natal Provincial Legislature on KwaZulu-Natal Film Commission *...continued*

Other information

20. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes 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 and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

21. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

22. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

23. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

24. 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 on it. I did not identify any significant deficiencies in internal control.

Auditor-General

Pietermaritzburg
30 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 this 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 KwaZulu-Natal Film Commission'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 ae entity to cease to continuing 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 (Act 1 of 1999), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Board members to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data. The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual 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 entityís 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 annual 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 entityís cash flow forecast for the 12 months to 31 March 2019 and, in light of this review and the current financial position, they are satisfied that the entity 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 for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that the KZN Department EDTEA has committed to fund the entity for the next 12 months.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on a separate report.

The annual financial statements set out on pages 54 to 85, which have been prepared on the going concern basis, were approved by the Board members on 29 May 2018 and were signed on its behalf by:

W Msomi
Board Chairman
30 July 2018

C Coetzee
Chief Executive Officer
30 July 2018

Audit and Risk Committee Report

We are pleased to present our report for the financial period of year ended 31 March 2018.

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 audit charter. Members met four times during the year under review.

Name of member	Number of meetings attended
N Khoza (Chairperson) (resignation 31/07/2017)	2
Z Gwala (resignation 09/03/2018)	4
D Ramuedzisi	3
P Raleigh (resignation 24/12/2017)	3
M Mzimela (appointment 01/09/2017)	2
N Mthembu (appointment 15/01/2018)	1

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 IV 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, 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 deficiences 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 quarterly reports prepared and issued by the members of the entity during the year under review.

Evaluation of Annual Financial Statements

The Audit and Risk Committee has:

> reviewed and discussed the audited annual financial statements to be included in the report, with the Auditor General and the board of members;

> reviewed the Auditor General of South Africa's management report and managementís response thereto;

> reviewed changes in accounting policies and practices;

> reviewed the entities 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 annual financial statements, and is 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.

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.

Chairperson of the Audit Committee
30 July 2018

Board Members' Report

The Board members submit their report for the year ended 31 March 2018.

1. Incorporation

The entity was incorporated on 09 September 2010. The KwaZulu Natal Film Commission (KZNFC) commenced its operations on 01 October 2013.

2. Review of activities

Main business and operations

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

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

Net surplus of the entity was R 1 208 393 (2017: surplus R 3 968 733),

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

We draw attention to the fact that at 31 March 2018, the entity had an accumulated surplus of R 24 114 501 and that the entity's total assets exceed its liabilities by R 24 114 501.

The annual 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 2018, no interest or conflict of interests were recorded.

6. Accounting policies

The annual financial statements are prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (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.

7. Board 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	Date of resignation
W Msomi	Chairperson	01 February 2013	
BN Malange	Deputy Chairperson	01 February 2013	
L Berning	Human Resources, Remuneration and Ethics Committee Chairperson	01 February 2013	
N Khoza	Audit and Risk Committee Chairperson	01 February 2013	31 July 2017
Z Gwala	Member	01 February 2013	09 March 2018
M Mzimela	Member	01 February 2013	
N Mthembu	Member	01 February 2013	
P Raleigh	Member	01 February 2013	24 December 2017
CL Coetzee	Executive Member	01 October 2013	
Executive management			
CL Coetzee	Chief Executive Officer	01 October 2013	
K Bogatsu	Chief Financial Officer	01 February 2014	
JM Japal	Chief Operations Officer	01 February 2014	

Board Members' Report ...continued

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 King 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.

Seven Board meetings were held during this period, of which two of those meetins were a Special Board meeting held on the 22 June 2017 and Board Strategic Planning session held on the 12 September 2017.

Name	24/04/17	25/05/17	22/06/17	01/08/17	12/09/17	31/10/17	30/01/18
W Msomi	Yes	Yes	Yes	Yes	Yes	Yes	Yes
BN Malange	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N Khoza	Yes	Yes	Yes	N/a	N/a	N/a	N/a
L Berning	Yes	Yes	Yes	Yes	Yes	Yes	Yes
P Raleigh	Yes	No	No	Yes	Yes	Yes	N/a
Z Gwala	Yes	No	No	Yes	Yes	Yes	Yes
M Mzimela	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N Mthembu	No	No	No	Yes	Yes	No	Yes
C Coetzee	Yes	Yes	Yes	Yes	Yes	Yes	Yes

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) up to 31 July 2017. Mr Gwala assumed duties as Chairperson from 23 October 2017 to 09 March 2018. 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 HTB Consulting Services. The service provider provided the service in the period under review, in line with the approved annual audit plan.

Four meetings were held during this period.

Name	22/05/17	25/07/17	23/10/17	25/01/18
N Khoza (resignation 31/07/2017)	Yes	Yes	N/a	N/a
Z Gwala (resignation 09/03/2018)	Yes	Yes	Yes	Yes
D Ramuedzisi (Independent sub committee member)	Yes	No	Yes	Yes
P Raleigh (resignation 24/12/2017)	Yes	Yes	Yes	N/a
M Mzimela (appointment 01/09/2017)	N/a	N/a	Yes	Yes
N Mthembu (appointment 15/01/2018)	N/a	N/a	N/a	Yes

Human Resource, Remuneration and Ethics Committee

For the period under review, the Chairperson of the Human Resource, Remuneration and Ethics 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.

Three meetings were held during this period.

Name	25/07/17	27/11/17	23/03/18
L Berning	Yes	Yes	Yes
M Mzimela	Yes	Yes	Yes
BN Malange	Yes	Yes	Yes
K Simelane (Independent sub-committee member)	Yes	Yes	Yes

10. Bankers

Amalgamated Banks of South Africa (ABSA)

11. Auditors

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

Statement of Financial Position

For the year ended 31 March 2018

	Note(s)	2018	2017
		R	R
Assets			
Current Assets			
Receivables from exchange transactions	3	130 487	2 503
Receivables from non-exchange transactions	4	-	163 932
Cash and cash equivalents	5	17 649 148	20 441 230
Prepayments	6	3 671 797	369 063
		21 451 432	**20 976 728**
Non-Current Assets			
Property, plant and equipment	7	6 685 266	8 465 030
Intangible assets	8	1 023 987	216 343
		7 709 253	**8 681 373**
Total Assets		**29 160 685**	**29 658 101**
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	4 917 392	6 698 980
Payable from non-exchange transactions	10	128 792	53 013
		5 046 184	6 751 993
Total Liabilities		**5 046 184**	**6 751 993**
Net Assets		**24 114 501**	**22 906 108**
Accumulated surplus		24 114 501	22 906 108

Statement of Financial Performance

For the year ended 31 March 2018

	Note(s)	2018	2017
		R	R
Revenue			
Revenue from exchange transactions			
Rendering of services	11	38 401	282 777
Rental of facilities and equipment	12	386 380	239 430
Interest received investment	13	1 004 789	1 672 666
Other income	14	1 284 341	106 646
Total revenue from exchange transactions		**2 713 911**	**2 301 519**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants and subsidies	15	83 843 000	71 772 000
Total revenue		**86 556 911**	**74 073 519**
Expenditure			
Board and committee members costs	16	(1 353 578)	(1 044 074)
Employee related costs	17	(16 392 747)	(19 279 227)
Finance costs	18	(1 859)	(1 786)
Marketing and projects	19	(11 290 174)	(12 832 118)
Depreciation and amortisation	20	(2 855 419)	(2 227 136)
Operating expenses	21	(15 304 817)	(13 516 488)
Audit fees	22	(874 168)	(789 514)
Production and development costs	23	(35 753 083)	(19 563 684)
Research and development	24	(1 514 313)	(666 527)
Total expenditure		**(85 340 158)**	**(69 920 554)**
Operating surplus		**1 216 753**	**4 152 965**
Loss on disposal of assets and liabilities	7	(8 360)	(184 233)
Surplus for the year		**1 208 393**	**3 968 732**

Statement of Changes in Net Assets

For the year ended 31 March 2018

	Accumulated surplus	Total net assets
	R	R
Balance at 01 April 2016	**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 01 April 2017	**22 906 108**	**22 906 108**
Changes in net assets		
Surplus for the year	1 208 393	1 208 393
Total changes	1 208 393	1 208 393
Balance at 31 March 2018	**24 114 501**	**24 114 501**

Cash Flow Statement

For the year ended 31 March 2018

	Note(s)	2018	2017
		R	R
Cash flows from operating activities			
Receipts			
Grants		83 843 000	71 772 000
Interest received investment		1 004 789	1 672 666
Other receipts		1 681 374	401 773
		86 529 163	73 846 439
Payments			
Employee costs		(16 647 119)	(19 011 642)
Finance costs		(1 859)	(1 786)
Other payments		(70 780 607)	(48 800 788)
		(87 429 585)	(67 814 216)
Net cash flows from operating activities	25	**(900 422)**	**6 032 223**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(783 487)	(5 861 961)
Purchase of other intangible assets	8	(1 108 173)	(23 934)
Net cash flows from investing activities		(1 891 660)	(5 885 895)
Cash flows from financing activities			
Finance lease payments		-	(69 817)
Net increase/(decrease) in cash and cash equivalents		**(2 792 082)**	**76 511**
Cash and cash equivalents at the beginning of the year		20 441 230	20 364 719
Cash and cash equivalents at the end of the year	5	**17 649 148**	**20 441 230**

Statement of Comparison of Budget and Actual Amounts

For the year ended 31 March 2018

Budget on Cash Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	R
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rendering of services	-	-	-	38 401	38 401	37.1
Rental of facilities and equipment	-	-	-	386 380	386 380	37.2
Other income	-	-	-	1 284 341	1 284 341	37.3
Interest received investment	-	-	-	1 004 789	1 004 789	37.4
Total revenue from exchange transactions	**-**	**-**	**-**	**2 713 911**	**2 713 911**	
Revenue from non exchange transactions						
Transfer revenue						
Government grants & subsidies	71 843 000	12 000 000	**83 843 000**	83 843 000	-	
Rollover funds 2016/17	-	20 440 782	**20 440 782**	20 440 782	-	
Total revenue from non exchange transactions	**71 843 000**	**32 440 782**	**104 283 782**	**104 283 782**	**-**	
Total revenue	**71 843 000**	**32 440 782**	**104 283 782**	**106 997 693**	**2 713 911**	
Expenditure						
Employee related costs	(21 648 803)	5 307 262	(16 341 541)	(16 392 747)	(51 206)	37.5
Board and committee members costs	(1 543 684)	100 000	(1 443 684)	(1 353 578)	90 106	37.6
Marketing and development	(13 904 034)	(75 432)	(13 979 466)	(11 290 174)	2 689 292	37.10
Audit fees	(992 517)	173 733	(818 784)	(874 168)	(55 384)	
Depreciation and amortisation	-	-	-	(2 855 419)	(2 855 419)	37.7
Finance costs	-	-	-	(1 859)	(1 859)	
Research and development	(509 434)	(1 575 755)	(2 085 189)	(1 514 313)	570 876	37.8
Production and development costs	(33 556 359)	(14 813 064)	(48 369 423)	(35 753 083)	12 616 340	37.9
Operating expenses	(18 495 811)	4 176	(18 491 635)	(15 304 817)	3 186 818	37.11
Total expenditure	**(90 650 642)**	**(10 879 080)**	**(101 529 722)**	**(85 340 158)**	**16 189 564**	
Operating surplus	**(18 807 642)**	**21 561 702**	**2 754 060**	**21 657 535**	**18 903 475**	
Loss on disposal of assets and liabilities	-	-	-	(8 360)	**(8 360)**	37.12
Surplus for the year from continuing operations	**(18 807 642)**	**21 561 702**	**2 754 060**	**21 649 175**	**18 895 115**	
Capex	(1 633 140)	(1 120 920)	**(2 754 060)**	(1 891 660)	**862 400**	37.13
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(20 440 782)**	**20 440 782**	**-**	**19 757 515**	**19 757 515**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

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.

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

1.1 Presentation currency

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

1.2 Going concern assumption

These annual 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

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions are measured as at 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 the future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. The measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes based on the probability that the outcome will materialise in the 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 an 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 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.

Accounting Policies *...continued*

1. Presentation of Annual Financial Statements *...continued*

1.4 Significant judgements and sources of estimation uncertainty *...continued*

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 an 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 Property, plant and equipment

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

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Where an asset is acquired through a non exchange transaction, its cost is its fair value as at date of acquisition. Where an item of property, plant and equipment is acquired in exchange for a non monetary asset or 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.

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.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies *...continued*

1. Presentation of Annual Financial Statements *...continued*

1.5 Property, plant and equipment *...continued*

The useful lives of items of property, plant and equipment have been assessed as follows

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	6 years
Office equipment	Straight line	5 years
IT equipment	Straight line	3 years
Leasehold improvements	Straight line	5 years (lease period)
Production and development equipment	Straight line	3 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the assetís future economic benefits or service potential are expected to be consumed by the entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no future economic[benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent managementís best estimate of the set of economic conditions that will exist over the useful life of the asset.

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.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Accounting Policies *...continued*

1. Presentation of Annual Financial Statements *...continued*

1.6 Intangible assets *...continued*

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 years

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

1.7 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 a 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.

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 assetës carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assetës 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.

1. Presentation of Annual Financial Statements *...continued*

1.7 Financial instruments *...continued*

For financial assets held at amortised cost: *...continued*

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 debtorës 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.

Payables from exchange and n on 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.

Accounting Policies *...continued*

1. Presentation of Annual Financial Statements *...continued*

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The 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.

1.9 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 month 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 accummulating 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.

1.10 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

1. Presentation of Annual Financial Statements ...continued

1.10 Provisions and contingencies ...continued

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre specified terms and conditions.

The entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

> financial difficulty of the debtor;

> defaults or delinquencies in interest and capital repayments by the debtor;

> breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

> a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the entity considers that an outflow of economic resources is probable, an entity recognises the obligation at the higher of:

> the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and

> the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.11 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:

> 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 ñ therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.12 Revenue from exchange transactions

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

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

Measurement

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

Accounting Policies *...continued*

1. Presentation of Annual Financial Statements *...continued*

1.13 Revenue from non exchange transactions

Non exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

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

Measurement

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

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 remit grants on a re imbursement 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.

1.14 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 annual 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. Presentation of Annual Financial Statements ...continued

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised 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.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

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

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or

(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or

(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.18 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Accounting Policies *...continued*

1. Presentation of Annual Financial Statements *...continued*

1.19 Budget information

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

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 2017/04/01 to 2018/03/31.

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

The annual 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.

1.20 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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.

The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entityís financial statements to understand the effect of related party transactions on its annual financial statements.

1.21 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 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. Presentation of Annual Financial Statements ...continued

1.22 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 exceprtional cases where recognition directly in net assets is specifically allowed or required by a Standard of GRAP.

1.23 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 official is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income.

Notes to the Annual Financial Statements

For the year ended 31 March 2018

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity had chosen to early adopt the following standard and interpretation in the previous financial year which is effective in the year under review.

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact
> GRAP 20: Related parties	01 April 2019	The impact of the amendment is not material
> GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	The impact of the amendment is not material
> GRAP 108: Statutory receivables	01 April 2019	The impact of the amendment is not material
> GRAP 109: Accounting by Principals and Agents	01 April 2019	The impact of the amendment is not material
> IGRAP 17: Services concesion arrangements where a grantor controls a significant residual interest in an asset	01 April 2019	The impact of the amendment is not material
> Directive 12: The selection of an appropriate reporting framework by public entities	01 April 2019	The impact of the amendment is not material
> IGRAP 19: Liabilities to Pay Levies	01 April 2018	The impact of the amendment is not material

	2018	2017
	R	R
3. Receivables from exchange transactions		
Sundry Debtors	130 487	2 503

Sundry debtors comprises to R62 770 receivable for hire of production equipment and hire of office space from Cluster rentals, R44 264 receivable from a supplier that had charged more than agreed purchase order amount (communication has been made to supplier and arrangement was reached in recovering the funds); and R23 453 receivable from Santam (entity's insurance company) for deduction on monthly debit order due to miscalculation by insurers.

4. Receivables from non-exchange transactions

	2018	2017
Pay As You Earn (PAYE)	-	163 932

5. Cash and cash equivalents

	2018	2017
Cash and cash equivalents consist of:		
Cash on hand	1 918	449
Bank balances	2 940 616	1 939 188
Call account	14 706 614	18 501 593
	17 649 148	**20 441 230**

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 R17.6 million was fully committed as at 31 March 2018.

6. Prepayments

	2018	2017
Prepayments	3 671 797	369 063
Subscriptions and services	18 995	42 434
Rental	258 941	228 441
IT Costs	165 900	98 188
Projects and Events (Simon Sabela down payment)	3 227 961	-
	3 671 797	**369 063**

Prepayments comprise IT costs relating to server maintenance, subscriptions on Independent Newspaper, subcriptions with SAGE VIP licences for hosting HR services monthly, rental for the month of April 2018 and R3.2 million relates to a payment made as a down payment in preparation for the Simon "Mabhunu" Sabela Film and Television Awards 2018.

Notes to the Annual Financial Statements *...continued*

For the year ended 31 March 2018

	2018			2017		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R	R	R	R	R	R
7. Property, plant and equipment						
Furniture and fixtures	3 905 916	(1 090 506)	2 815 410	3 905 916	(440 793)	3 465 123
Office equipment	257 144	(98 801)	158 343	230 559	(47 815)	182 744
IT equipment	2 407 906	(1 780 461)	627 445	2 292 510	(1 708 887)	583 623
Leasehold improvements	3 598 991	(1 309 381)	2 289 610	3 433 766	(527 961)	2 905 805
Production and development equipment	2 070 294	(1 275 836)	794 458	1 952 656	(624 921)	1 327 735
Total	**12 240 251**	**(5 554 985)**	**6 685 266**	**11 815 407**	**(3 350 377)**	**8 465 030**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Loss on write off	Depreciation	Total
	R	R	R	R	R
Furniture and fixtures	3 465 123	-	-	(649 713)	2 815 410
Office equipment	182 744	26 585	-	(50 986)	158 343
IT equipment	583 623	474 039	(8 360)	(421 857)	627 445
Leasehold improvements	2 905 805	165 225	-	(781 420)	2 289 610
Production and development equipment	1 327 735	117 638	-	(650 915)	794 458
	8 465 030	**783 487**	**(8 360)**	**(2 554 891)**	**6 685 266**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Loss on write off	Depreciation	Total
	R	R	R	R	R
Furniture and fixtures	517 083	3 368 834	(113 374)	(307 420)	3 465 123
Finance lease assets	62 508	-	(14 745)	(47 763)	-
Office equipment	97 069	117 832	-	(32 157)	182 744
IT equipment	913 625	321 062	(49 588)	(601 476)	583 623
Leasehold improvements	1 809 913	1 593 176	-	(497 284)	2 905 805
Production and development equipment	661 059	1 100 879	-	(434 203)	1 327 735
Cellphone	16 300	-	(6 526)	(9 774)	-

Reconciliation for work in progress - 2017

	Opening balance	Transfers/ Additions	Loss on write off	Depreciation	Total
	R	R	R	R	R
Leasehold improvements	639 822	(639 822)	-	-	-
	4 717 379	**5 861 961**	**184 233**	**(1 930 077)**	**8 465 030**

The loss on assets of R8 360 relates to Computer Equipment that was lost during the period under review.

The KZNFC conducted a useful life estimate on its assets for the period under review and a number of assets were found to still be useful for another year due to their conditions and compatibility. The carrying amount of those asset at the end of March 2018 was R110 705.

Notes to the Annual Financial Statements ...continued

For the year ended 31 March 2018

	2018			2017		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	R	R	R	R	R	R
8. Intangible assets						
Computer software, other	2 328 686	(1 304 699)	1 023 987	1 220 513	(1 004 170)	216 343

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Depreciation	Total
	R	R	R	R
Computer software, other	216 343	1 108 173	(300 529)	1 023 987

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Depreciation	Total
	R	R	R	R
Computer software, other	489 465	23 935	(297 057)	216 343

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 compatability. The carrying amount of those assets at the end of March 2018 was R82 885.

	2018	2017
	R	R
9. Payables from exchange transactions		
Trade payables	1 695 519	3 024 772
Accrued expenses	1 195 835	1 335 572
Deposits on cluster rentals	34 519	3 330
Leave pay provision	408 327	666 921
13th cheque savings	97 607	103 773
Accrued performance bonuses	1 485 585	1 564 612
	4 917 392	**6 698 980**
The ageing of trade payables as at reporting date are as follows:		
30 days	1 695 519	3 024 772

Notes to the Annual Financial Statements *...continued*

For the year ended 31 March 2018

	2018	2017
	R	R

10. Payables from non exchange transactions

	2018	2017
Pay-As-You-Earn (PAYE)	19 261	-
Medical Aid	51 748	53 013
Board fees payable	57 783	-
	128 792	**53 013**

Board fees payable relates to Board retainer fee for the year which would only be paid after year end.

11. Rendering of services

	2018	2017
Directors programmes	-	274 305
Telephone usage and other	38 401	8 472
	38 401	**282 777**

The amount of R38 401 relates to income generated from Cluster rentals for telephone usage, access tags charge and parking discs charges.

12. Rental of facilities and equipment

	2018	2017
Rental of office space	378 155	230 880
Rental of equipment	8 225	8 550
	386 380	**239 430**

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

13. Interest received

	2018	2017
Interest received		
Bank	**1 004 789**	**1 672 666**

14. Other income

	2018	2017
Partnerships and other income	13 461	76 141
Insurance recoveries and other	190 880	30 505
Production recoupments	1 080 000	-
	1 284 341	**106 646**

Partnerships and other income relates to telephone usage billings charged on the Cluster rentals for year under review. Insurance recoveries includes recoveries from Santam for lost assets and policy paybacks, recoveries from Liberty insurers for disability claim by an employee, tender receipts for tender documents and receipts from recycling of paper. Productiom recoupment relates to the recoupment on grant for the production of film "Keeping Up with the Kandasamys'.

15. Government grants and subsidies

	2018	2017
Operating grants		
Released to income from Kwa Zulu Natal Department (EDTEA)	71 843 000	68 211 000
Special Grants	12 000 000	3 561 000
Total grants released	**83 843 000**	**71 772 000**

The special grant of R12 million, was received from EDTEA to fund the KZN Youth Film and Women Film Programme.

Notes to the Annual Financial Statements *...continued*

For the year ended 31 March 2018

16. Members' emoluments

	Member's fees	Sub-Committees	Other Payments	Total
	R	R	R	R
2018				
W Msomi	526 029	4 120	17 517	547 666
BN Malange	274 198	21 425	-	295 623
P Raleigh	61 670	46 877	-	108 547
M Mzimela	121 454	30 607	30 930	182 991
L Berning	121 454	45 595	1 413	168 462
* D Ramuedzisi	-	29 523	-	29 523
* K Simelane	-	20 766	-	20 766
	1 104 805	**198 913**	**49 860**	**1 353 578**

	Member's fees	Sub-Committees	Other Payments	Total
	R	R	R	R
2017				
W Msomi	367 424	-	1 133	368 557
BN 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 Ramuedzi	-	34 755	-	34 755
* K Simelane	-	33 124	-	33 124
	823 760	**203 729**	**16 585**	**1 044 074**

*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 are 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 year under review:

N Khoza (resignation 31 July 2017)
Z Gwala (resignation 09 March 2018); and
N Mthembu

17. Employee related costs

Executive Management	Designation	2018 R	2017 R
CL Coetzee	Chief Executive Officer	2 053 524	1 904 248
K Bogatsu	Chief Financial Officer	1 529 394	1 423 544
JM Japal	Chief Operations Officer	1 496 343	1 399 001
		5 079 261	**4 726 793**

2018	Salary R	Cellphone Reimbursements R	Employer Contributions R	Performance Bonus R	Total R
CL Coetzee	1 811 390	67 200	39 215	135 719	2 053 524
K Bogatsu	1 361 368	31 200	29 997	106 829	1 529 394
JM Japal	1 341 640	31 200	29 866	93 637	1 496 343
	4 514 398	**129 600**	**99 078**	**336 185**	**5 079 261**

2017	Salary R	Cellphone Reimbursements R	Employer Contributions R	Performance Bonus R	Total R
CL 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
JM 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**

Non Executive Employee Costs	2018 R	2017 R
Cost of employment	9 730 797	12 518 153
Performance bonus	1 178 910	1 204 176
Company contributions	232 574	221 164
Cellphone reimbursements	160 200	57 600
Temporary staff	-	12 671
Contractor	149 409	292 195
Leave expense	(138 404)	246 475
	11 313 486	**14 552 434**
Total employee related costs	16 392 747	19 279 227

Notes to the Annual Financial Statements *...continued*

For the year ended 31 March 2018

	2018	2017
	R	R
18. Finance costs		
Interest paid	1 859	1 785
Late payment of tax	-	1
	1 859	**1 786**

Interest relates to an invoice received from Auditor General (SA) that was paid after due date.

	2018	2017
19. Marketing and projects		
Advertising and promotion	1 384 939	2 172 288
Branding and marketing	2 002 270	2 769 054
Familiarisation tours	27 914	159 059
Locations and facilities	68 022	93 408
Simon Mabhunu Sabela film awards	6 662 264	6 700 000
Special projects other festivals	1 144 765	938 309
	11 290 174	**12 832 118**

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

	2018	2017
20. Depreciation and amortisation		
Furniture and fixtures	649 713	307 420
IT equipment	421 856	601 476
Office equipment	50 986	32 157
Production and development equipment	650 915	434 203
Leasehold improvements	781 420	497 285
Finance lease assets	-	47 763
Cellphones	-	9 774
Computer software	300 529	297 057
	2 855 419	**2 227 135**

For the year ended 31 March 2018

	2018	2017
	R	R
21. Operating expenses		
Advertising	85 910	121 150
Bank charges	31 683	32 967
Cleaning	631 718	525 188
Corporate social initivaties	249 012	121 430
Consulting and professional fees	3 218 961	1 054 234
Insurance	182 756	113 855
Conferences and seminars	9 900	6 217
IT expenses	1 385 520	1 603 633
File management	17 746	49 581
Postage and courier	87 094	81 763
Printing and stationery	454 820	435 984
Repairs and maintenance	113 071	39 393
Security	1 049 855	881 617
Staff welfare	47 865	134 837
Subscriptions and membership fees	111 221	111 660
Telephone and fax	370 730	678 219
Training	652 244	846 948
Travel local	1 268 487	853 005
Non capitalised equipment	63 009	896 262
Electricity	636 615	574 797
Water	297 702	76 016
Recruitment costs	878	116 149
Internship programme	1 049 156	242 165
Office interior design	-	1 152 398
Lease rentals on operating lease	2 956 462	2 469 814
Employee wellness	155 967	112 808
Other expenses	176 435	184 396
	15 304 817	**13 516 486**
22. Auditors' fees		
External audit fees	766 178	789 514
Internal audit fees	107 990	-
	874 168	**789 514**

Notes to the Annual Financial Statements ...continued

For the year ended 31 March 2018

	2018	2017
	R	R
23. Production and development costs		
Film production		
Film production	29 856 431	13 430 906

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. Additional funding was allocated during the year based on savings from other business units.

	2018	2017
Project costs		
SMME programme and incubation	375 000	1 095 300
Stakeholder engagement programmes	527 726	976 480
Bursaries	1 150 383	1 389 243
Skills development	3 843 543	2 671 755
	5 896 652	**6 132 778**
Film production	29 856 431	13 430 906
Project costs	5 896 652	6 132 778
Total production and development cost	**35 753 083**	**19 563 684**
24. Research and development		
Film industry research	1 514 313	666 527
25. Cash (used in) generated from operations		
Surplus	1 208 393	3 968 732
Adjustments for:		
Depreciation and amortisation	2 855 419	2 227 136
Loss on assets and liabilities	8 360	184 233
Changes in working capital:		
Receivables from exchange transactions	(127 984)	(2 503)
Receivables from non exchange transactions	163 932	(163 895)
Prepayments	(3 302 734)	2 956 395
Payables from exchange transactions	(1 781 588)	(3 000 725)
Payables from non exchange transactions	75 778	(137 148)
	(900 422)	**6 032 223**

26. Risk management

Financial risk management

Capital Management

The entity manages its capital to ensure that the entity 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.

	2018	2017
Cash and cash equivalents	17 649 148	20 441 230
Prepayments	3 671 797	369 063
Sundry debtors	67 717	1 823
Receivables from exchange transactions (cluster rentals)	62 770	680
Receivables from non exchange transactions (SARS)	-	163 932
	21 451 432	**20 976 728**

26. Risk management *...continued*

Liquidity risk

The entityís exposure to liquidity risk is minimal as it is 100% funded by the Department of Economic Development, Tourism and Environmental Affairs. The annual budgets are approved at the beginning of each fiscal year and draw down as requested at the beginning of each quarter. Cash flows are monitored monthly against budgets and adjustmens are made where necessary. Risk management assessments are conducted annually to assist with identifying any possible cash flows, liquidity or other risks.

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 principaly 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

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 managementís 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.

	2018	2017
	R	R
Estimated increase in rates		
Estimated increase in basis points	100	100
Financial asset profile		
Cash and bank balances	17 649 148	20 441 230

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 2017.

	2018		2017	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp Decrease
	R	R	R	R
Surplus or deficit	176 491	(176 491)	204 412	(204 412)

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 flactuations 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.

Notes to the Annual Financial Statements *...continued*

For the year ended 31 March 2018

27. Contingencies

The entity has reviewed the contingent liabilities as at 31 March 2018, and there were no significant matters or legal cases that the entity was aware of.

28. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	Non-financial instruments	Cash & receivables	Total
	R	R	R
Trade and other receivables from exchange transactions	130 487	-	130 487
Cash and cash equivalents	-	17 649 148	17 649 148
Prepaid expenses	3 671 797	-	3 671 797
	3 802 284	**17 649 148**	**21 451 432**

Financial liabilities

	At Amortised Cost	Non-financial instruments	Loans & payables	Total
	R	R	R	R
Trade and other payables from exchange transactions	1 695 519	408 327	2 813 546	4 917 392

2017

Financial assets

	Non-financial instruments	Cash & receivables	Total
	R	R	R
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
	R	R	R	R
Trade and other payables from exchange transactions	3 024 772	666 921	3 007 288	6 698 981

For the year ended 31 March 2018

29. 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 P. Raleigh Z. Gwala M. Mzimela N. Mthembu
Independent sub committee members	D. Ramuedzisi K. Simelane

Schedule 3C PFMA Listed Entity (KwaZulu Natal Department of Economic Development Tourism and Environmental Affairs EDTEA 100% Shareholdership)

	2018	2017
	R	R
Related party transactions		
Total Grants Received for the year		
EDTEA - operational grants	71 843 000	68 211 000
EDTEA- special projects	12 000 000	3 561 000
Compensation to Members and Key Management		
Key management remuneration	5 079 261	4 726 793
Board and Commitee member's fees	1 353 578	1 044 074
Non Exchange Transations:		
KZN Liquor Authority - Transfer of Assets	-	238 500

30. Fruitless and wasteful expenditure

	2018	2017
Interest paid	1 859	1 309
Penalties paid	-	477
Legal fees paid	-	1 140
Subtotal	1 859	2 926
Expenditure write off due to non-recovery	-	(2 926)
	1 859	**-**

31. Irregular expenditure

	2018	2017
Opening balance	-	254 512
Add: Irregular Expenditure - current year	1 217 864	-
Less: Amounts condoned	(619 200)	(254 512)
	598 664	**-**

All irregular expenditure arising from prior year was condoned in the year under review. The entity had irregular expenditure in the year under review which related to professional services to support the entity where there are vacancies. The total of R619 200 has been condoned in the year under review by the board.

Notes to the Annual Financial Statements *...continued*

For the year ended 31 March 2018

	2018	2017
	R	R

32. Funds to be surrendered

	2018 R	2017 R
Cash and cash equivalents	17 649 148	20 441 230
Creditors and accruals for goods and services	(2 891 354)	(4 360 345)
Projects to be completed in 2018/2019 financial year	(14 757 794)	(16 080 885)
	-	-

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

33. Commitments

	2018 R	2017 R
Authorised capital expenditure		
> Approved and contracted	203 599	473 500
Total capital commitments		
Already contracted for but not provided for	203 599	473 500

34. Operating lease

Minimum lease payments 2018	</= 1 year	>1- 5 years
	R	R
Broll - Rental of property for office space	2 818 366	6 037 276
Nashua- Rental Copier (ends May 2019)	117 031	19 939
Konica Minolta - Rental Copier 12th floor (ends 28 February 2019)	52 606	-
Nestle - 2 Coffee Machines 12th & 13th floor (ends May 2018)	2 257	-
	2 990 260	**6 057 215**

Minimum lease payments 2017	</= 1 year	>1- 5 years
	R	R
Broll - Rental of property for office space	2 609 598	8 855 643
Nashua - Rental Copier (ends May 2019)	101 766	136 970
Konica Minolta - Rental Copier 13th floor	47 913	-
Konica Minolta - Rental Copier 12th floor	57 389	56 606
Nestle - 2 Coffee Machines 12th & 13th floor	13 543	2 257
	2 830 209	**9 051 476**

35. Going concern

We draw attention to the fact that at 31 March 2018, the entity had an accumulated surplus of R 24 114 501 and that the entity's total assets exceed its liabilities by R 24 114 501.

The annual 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 2019 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.

During the year under review the entity received a recommendation and confirmation from EDTEA that the KZNFC and KZN Tourism Authority will merge in the foreseeable future. The final date of the merge has not been confirmed.

36. Events after the reporting date

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

37. 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.

37.1 Rendering of services - The variance is due to the KZNFC not budgeting for rendering of services for the monies recouped from cluster tenants for the use of telephone.

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

37.3 Other income - Other Income was unforeseen at the time of the budget thus the KZFNC could not budgeted for it. This relates to recoupment of production funding which is dependant on the success of the film.

37.4 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 potential interest.

37.5 Employee related costs - Immaterial variance.

37.6 Board members remuneration - The underspent in Board and Committee Members Costs is due to the resignation of 1 board member during 2017/18 financial year which were included in the initial budgets.

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

37.8 Research and development - The underspent in Research and Development is due to the balances remaining for payment to the following service providers conducting research for KZNFC. Blue print holdings (Disability Strategy Research), Lumec (Research on socio Economic impact on micro budget for KZNFC), Naroth Architects Universal (Assessment and access audit), Wrap Zero (Research on environmental impact in the film industry in KZN) and Urban Econ Development Economists (research on socio economic impact analysis on KZN based TV series). The above mentioned research projects were committed towards the end of the 2017/18 financial year, payments are made in according to milestones completed. The projects will be completed in quarter one of 2018/19.

37.9 Production and development funding - The underspent in Production and Development Funding is due to delays in receiving milestones reports for projects from funding beneficiaries. KZNFC pay the beneficiaries based on the milestones achieved per the contract agreement. No payments are made to beneficiaries if the milestones are not met.

37.10 Marketing and projects - The underspend in Marketing and Projects is due to incomplete projects relating to these multi year projects: Marketing App, 30 Second Advert with 1 KZNTV, Locations Visual Reality, Editing of the Content Video with Capturevate, etc which were all committed on the fourth quarter and will be completed in Quarter one in 2018/19 financial year.

37.11 Operating expenses - The underspend in operating expenses is due to savings identified as a result of cost cutting measures implemented as per Provincial Treasury circulars.

37.12 Loss on assets written off - relates to loss on assets that were written off due to being stolen. These were not budgeted for.

37.13 Capex - The underspending in Capex is due to the delay of payment for Online Funding System, Purchase of Computer/ Laptop and purchase of Ergonomics Furniture. Payment could not be released due to pending delivery of assets hence resulted in underspending.

Notes to the Annual Financial Statements *...continued*

For the year ended 31 March 2018

38. 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 board of members and include a note to the annual financial statements.

2018 - Deviations	**<R500 000**	**>R500 000**	**Total**
	R	R	R
Professional fees	308 847	254 387	563 234
Marketing and publications	395 680	-	395 680
IT costs	122 067	-	122 067
Research and development	160 301	-	160 301
	986 895	**254 387**	**1 241 282**

38.1 Professional fees:

The costs relates to human resource services through SAGE VIP as sole provider of the system utilised by the KZNFC for payroll purposes,as the entity required continuity and support on the system, it was impractical to source three quotes due to the confidentiality of the functions and continuity of services to be rendered by sole provider, an amount of R22k related to services of an international film and lighting expert who conducted master classes to the film makers, it was impractical to source three quotes.and there's R254 386 the KZNFC advertised the tender in public newspaper as well as the Government Tender Bulletin and there was no response from the service proviers after the closing date and head hunting process was done on three service providers where one was appointed.

38.2 Marketing and publications:

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. Of the amount disclosed of R687 830, R86 589 for The Callsheet for international advertisement , R56 404 The Hollywood Reporter which is also an international advertising forum, R59 000 for Screen of Africa for advertising key film festivals with targeted advertising, R52 000 for Business Film for an online magazine advert that attracts producers, R60 000 for ACSA airport to market DIFF at the King Shaka airport and other small targeted advertisng channels.

38.3 IT Costs:

IT Costs relates to the appointment of a service provider on the basis of continuation as work had already been started being the decommission of IT infrastructure from KZNFC Marine Offices and recommisioning in the premises Musgrave Towers. The project included IT installation of all 4 floors occupied by the entity as per the requirements of KZN Film Cluster relocation plans and renewal of Caseware Working Papers for the preparation of Annual Financial Statement as Adapt-IT(previously known as CQS) is the sole provider of Caseware in Africa.

38.4 Research and development:

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

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

39. 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.

2018	Original Budget	Final Adjusted Budget	Actual Expenditure
	R	R	R
KwaZulu-Natal Film Commission	71 843 000	104 283 782	(87 231 818)

40. Change in accounting estimate

Asset classes that useful life has been assessed

Asset class	Carrying amount before adjustment	Carrying amount after adjustment	Net impact on depreciation
	R	R	R
Furniture and fixtures	2 815 410	(2 815 410)	-
Office equipment	158 343	(158 343)	-
IT equipment	516 740	(627 445)	(110 705)
Leasehold improvements	2 289 610	(2 289 610)	-
Production and development equipment	794 458	(794 458)	-
Computer software, other	941 102	(1 023 987)	(82 885)
	7 515 663	**(7 709 253)**	**(193 590)**

The entity on a yearly basis does an assessment on its assets useful life, in line with the accounting policy on the useful life of the property plant and equipment and intangible assets. In the year under review the entity assessed the useful life of all of its assets, and there were assets that will be able to be used beyond the initial estimated useful lives. The IT equipment and Computer software has a useful life of 3 years, however after assessment a number of IT equipment and Computer software were found to be still usable for an additional twelve months. This was further impacted by the budget contraints to dispose and replace these assets.

As per GRAP 3.39 the change in accounting estimate was performed on IT equipment and Computer Software which were found to be in use even though the useful life had been reached. The carrying amount of such assets has been adjusted accordingly and depreciation revised on such asset. The carrying amount of those assets as at end of March 2018 was R110 705 and R82 885 on IT equipment and Computer software.

The change in the accounting estimate resulted in an decrease in depreciation in the year under review by R193 590 and increase in future periods in depreciation of R193 590.

NOTES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KWAZULU-NATAL FILM COMMISSION
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