Vhembe District Municipality
Annual financial statements
for the year ended June 30, 2021

General Information

Legal form of entity	District Municipality Category C
Nature of business and principal activities	Providing municipal services to communities in a sustainable manner, to promote social and economic development, and to promote a safe and healthy environment.
Grading of the municipality	Four (4)
Municipal Council	
Executive Mayor	Councillor DA Nenguda
Speaker	Councillor TF Nkondo
Chief Whip	Councillor RS Ndou
Members of the Mayoral Committee	Councillor TS Mbedzi
	Councillor NC Radamba
	Councillor PJ Chavani
	Councillor MR Magada
	Councillor NR Mathukha
Other Councillors	Councillor MS Machete
	Councillor MP Temba
	Councillor MJ Mariba
	Councillor O Netshisaulu
	Councillor LR Rambuwani
	Councillor MP Mathoma
	Councillor TN Maboya
	Councillor P Mashau
	Councillor SE Makhomisane
	Councillor AJ Masith
	Councillor DE Tshishonge
	Councillor R Raliphada
	Councillor TS Pandelane
	Councillor PE Mawela
	Councillor NE Ngobeni
	Councillor FN Madzhiga
	Councillor LR Maluleke
	Councillor SC Kwinda
	Councillor MJ Mpashe
	Councillor MS Tshilambyana
	Councillor TC Mamafha
	Councillor MS Matamela
	Councillor MM Mulaudzi
	Councillor CE Tshiredo
	Councillor NL Baloy
	Councillor G Tshililo
	Councillor MA Selapyane
	Councillor NJ Matumba
	Councillor R Ludere
	Councillor NG Mawela
	Councillor TG Mokwena
	Councillor TG Nethengwe
	Councillor AE Nekhunguni
	Councillor NM Malume

General Information

	Councillor RL Gadabeni Councillor GN Machobane Councillor TF Chauke Councillor MD Tharaga
Accounting Officer	T. S. Ndou
Chief Finance Officer (CFO)	M. Thangavhuelelo
Registered office	Old Parliament Building Thohoyandou 0950
Postal address	Private Bag X5006 Thohoyandou 0950
Bankers	First National Bank
Auditors	Auditor General South Africa
Audit Committee	Advocate E.N Lambani (chairperson) F.O Ndou T.G Nevhutalu M. Kwenamore

Index

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is 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 accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 71, in terms of Section 126(1) of the Municipal Finance Management and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

I acknowledge that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am 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.

I have reviewed the municipality's cash flow forecast for the year to June 30, 2022 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Vhembe District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

The annual financial statements set out on page 6 to 76, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2021 and were signed on its behalf by:

Accounting Officer
TS NDOU

Accounting Officer's Report

The accounting officer submits her report for the year ended June 30, 2021.

1. Review of activities

Main business and operations

Net surplus of the municipality was 272,531,723 (2020: deficit 172,351,574).

2. Going concern

We draw attention to the fact that at June 30, 2021, the municipality had an accumulated surplus of 3,705,932,612 and that the municipality's total liabilities exceed its assets by 3,705,932,612.

The municipality is substantially dependent on the government for continued funding of operations. Vhembe District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.The Municipality has been affected by the Covid-19 pandemic which resulted in a lockdown from 26 March 2020. The lockdown has affected the implementation of the municipality projects and other other operations in the municipality. The effects of the pandemic have been assessed to date and no significant threats have been identified which could impact on the going concern of the Municipality .

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 busines

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury:

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6. Corporate governance

The Council

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Audit Committee

Advocate E.N. Lambani was the chairperson of the audit committee for the year under review.

Internal Audit

In terms of Section 166 of the Municipal Finance Management Act, municipality, must appoint members of the Audit Committee. National Treasury policy requires that municipalities should appoint other members of the municipality's audit committees who are not councillors of the municipality onto the audit committee.

7. Bankers

The municipality has its primary bank account with First National Bank.

Accounting Officer's Report

8. Auditors

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

Statement of Financial Position as at June 30, 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	2	43,270,846	29,558,507
Receivables from exchange transactions	3	10,991,943	30,974,723
Receivables from non-exchange transactions	4	-	28,386
VAT receivable	5	-	26,784,061
Cash and cash equivalents	8	100,928,864	267,922,866
		155,191,653	**355,268,543**
Non-Current Assets			
Property, plant and equipment	6	5,183,845,504	4,743,741,809
Intangible assets	7	9,182,978	10,992,736
		5,193,028,482	**4,754,734,545**
Total Assets		**5,348,220,135**	**5,110,003,088**
Liabilities			
Current Liabilities			
Other financial liabilities	11	72,000,000	72,000,000
Finance lease obligation	9	-	591,189
Payables from exchange transactions	13	316,336,977	411,637,519
Taxes and transfers payable (non-exchange)	14	45,096,952	45,096,952
VAT payable	34	132,822,805	-
Consumer deposits	15	4,409,170	4,409,170
Unspent conditional grants and receipts	10	71,014,113	112,546,939
Provisions	12	68,941,365	62,941,445
		710,621,382	**709,223,214**
Non-Current Liabilities			
Other financial liabilities	11	923,541,321	960,469,534
Provisions	12	8,124,820	6,909,450
		931,666,141	**967,378,984**
Total Liabilities		**1,642,287,523**	**1,676,602,198**
Net Assets		**3,705,932,612**	**3,433,400,890**
Accumulated surplus		3,705,932,612	3,433,400,890
Total Net Assets		**3,705,932,612**	**3,433,400,890**

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	1,286,883,407	766,326,706
Rental of facilities and equipment	18	298	996
Sale of goods and rendering of services		2,889,246	2,472,170
Licence and permits	19	3,737	1,624
Operational revenue	20	545,232	1,159,374
Interest revenue	21	29,019,360	38,708,122
Gains on disposal of assets	22	-	11,586,618
Total revenue from exchange transactions		**1,319,341,280**	**820,255,610**
Revenue from non-exchange transactions			
Taxation revenue			
Licences and Permits (Non-exchange)		171,310	99,217
Transfer revenue			
Government grants & subsidies	25	1,881,944,788	1,546,583,092
Total revenue from non-exchange transactions		**1,882,116,098**	**1,546,682,309**
Total revenue	16	**3,201,457,378**	**2,366,937,919**
Expenditure			
Employee related costs	26	(650,721,859)	(605,453,427)
Remuneration of councillors	35	(14,423,276)	(14,665,339)
Depreciation and amortisation	27	(196,236,474)	(209,604,808)
Impairment loss	28	(1,490,229,120)	(1,078,299,368)
Finance costs	29	(141,480)	(348,044)
Bulk purchases	30	(95,053,206)	(88,827,149)
Contracted services	31	(297,657,041)	(385,971,353)
Loss on disposal of assets	22	(13,189,473)	-
Actuarial losses	23	-	(1,600,002)
Inventory consumed	24	(14,587,556)	(18,776,129)
General Expenses	32	(156,686,170)	(135,743,874)
Total expenditure		**(2,928,925,655)**	**(2,539,289,493)**
Surplus (deficit) for the year		**272,531,723**	**(172,351,574)**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2019	**3,751,957,215**	**3,751,957,215**
Changes in net assets		
Prior error effect on net surplus	97,345,029	97,345,029
Correction of error- Current assets	(247,343,035)	(247,343,035)
Non Current Assets	2,154,843	2,154,843
Current Liabilities	1,638,412	1,638,412
Net income (losses) recognised directly in net assets	(146,204,751)	(146,204,751)
Surplus for the year	(172,351,574)	(172,351,574)
Total recognised income and expenses for the year	(318,556,325)	(318,556,325)
Total changes	(318,556,325)	(318,556,325)
Restated* Balance at July 1, 2020	**3,433,400,889**	**3,433,400,889**
Changes in net assets		
Surplus for the year	272,531,723	272,531,723
Total changes	272,531,723	272,531,723
Balance at June 30, 2021	**3,705,932,612**	**3,705,932,612**

Note(s)

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Licences and Permits (Non-exchange)		198,347	1,868
Sale of goods and services		138,893,111	250,318,347
Grants		1,749,595,000	1,566,503,748
Interest income		13,615,273	27,317,351
		1,902,301,731	1,844,141,314
Payments			
Employee costs		(665,770,573)	(682,001,497)
Suppliers		(1,402,157,428)	(1,186,589,336)
Finance costs		(392,729)	(584,282)
		(2,068,320,730)	(1,869,175,115)
Net cash flows from operating activities	33	**(166,018,999)**	**(25,033,801)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(650,595,974)	(561,065,641)
Purchase of other intangible assets	7	(675,000)	(1,233,622)
Net cash flows from investing activities		**(651,270,974)**	**(562,299,263)**
Cash flows from financing activities			
Repayment of other financial liabilities		(650,295,974)	(560,561,414)
Net cash flows from financing activities		**650,295,974**	**560,561,414**
Net increase/(decrease) in cash and cash equivalents		**(166,993,999)**	**(26,771,650)**
Cash and cash equivalents at the beginning of the year		267,922,866	294,694,518
Cash and cash equivalents at the end of the year	8	**100,928,867**	**267,922,868**

* See Note 39

Vhembe District Municipality
Annual Financial Statements for the year ended June 30, 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of tender documents	2,215,242	840,758	**3,056,000**	2,889,246	**(166,754)**	
Sale of water	207,850,086	132,164,914	**340,015,000**	1,286,883,407	**946,868,407**	
Rental of facilities and equipment	2,004	(2,004)	**-**	298	**298**	
Licences and permits	393,000	45,000	**438,000**	3,737	**(434,263)**	
Other income	4,505,664	(4,505,664)	**-**	545,232	**545,232**	
Interest received - investment	87,965,508	(41,965,500)	**46,000,008**	29,019,360	**(16,980,648)**	
Total revenue from exchange transactions	**302,931,504**	**86,577,504**	**389,509,008**	**1,319,341,280**	**929,832,272**	
Revenue from non-exchange transactions						
Taxation revenue						
Licences and Permits (Non-exchange)	171,000	108,000	**279,000**	171,310	**(107,690)**	
Transfer revenue						
Government grants & subsidies	1,772,341,992	217,220,004	**1,989,561,996**	1,881,944,788	**(107,617,208)**	
Total revenue from non-exchange transactions	**1,772,512,992**	**217,328,004**	**1,989,840,996**	**1,882,116,098**	**(107,724,898)**	
Total revenue	**2,075,444,496**	**303,905,508**	**2,379,350,004**	**3,201,457,378**	**822,107,374**	
Expenditure						
Employee related costs	(631,782,552)	34,106	**(631,748,446)**	(650,721,859)	**(18,973,413)**	
Remuneration of councillors	(16,867,104)	7,525	**(16,859,579)**	(14,423,276)	**2,436,303**	
Depreciation and amortisation	(145,792,500)	(56,861,730)	**(202,654,230)**	(196,236,474)	**6,417,756**	
Impairment loss/ Reversal of impairments	-	(121,439,170)	**(121,439,170)**	(1,490,229,120)	**(1,368,789,950)**	
Finance costs	(395,772)	(52,452)	**(448,224)**	(141,480)	**306,744**	
Bad debts written off	(15,304,344)	-	**(15,304,344)**	-	**15,304,344**	
Bulk purchases	(92,225,112)	(245,502)	**(92,470,614)**	(95,053,206)	**(2,582,592)**	
Contracted Services	(248,464,728)	(10,448,376)	**(258,913,104)**	(297,657,041)	**(38,743,937)**	
Transfers and Subsidies	(700,008)	700,008	**-**	-	**-**	
Sale of goods/Inventory	(12,104,952)	(4,647,434)	**(16,752,386)**	(14,587,556)	**2,164,830**	
General Expenses	(107,910,060)	(46,957,165)	**(154,867,225)**	(156,686,170)	**(1,818,945)**	
Total expenditure	**(1,271,547,132)**	**(239,910,190)**	**(1,511,457,322)**	**(2,915,736,182)**	**(1,404,278,860)**	
Operating surplus	**803,897,364**	**63,995,318**	**867,892,682**	**285,721,196**	**(582,171,486)**	
Loss on disposal of assets and liabilities	-	2,000,000	**2,000,000**	(13,189,473)	**(15,189,473)**	
Surplus before taxation	**803,897,364**	**65,995,318**	**869,892,682**	**272,531,723**	**(597,360,959)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**803,897,364**	**65,995,318**	**869,892,682**	**272,531,723**	**(597,360,959)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	31,232,120	(5,378,938)	**25,853,182**	43,270,846	**17,417,664**	
Receivables from exchange transactions	(50,376,000)	(103,285,288)	**(153,661,288)**	10,991,943	**164,653,231**	
Receivables from non-exchange transactions	356,933,009	-	**356,933,009**	-	**(356,933,009)**	
VAT receivable	95,075,029	33,303,337	**128,378,366**	(132,822,805)	**(261,201,171)**	
Other asset 3	242,056,936	-	**242,056,936**	-	**(242,056,936)**	
Cash and cash equivalents	198,694,053	32,098,822	**230,792,875**	100,928,864	**(129,864,011)**	
	873,615,147	**(43,262,067)**	**830,353,080**	**22,368,848**	**(807,984,232)**	
Non-Current Assets						
Investment property	12,764,524	(155,678)	**12,608,846**	-	**(12,608,846)**	
Property, plant and equipment	4,999,440,121	66,032,370	**5,065,472,491**	5,183,845,504	**118,373,013**	
Intangible assets	14,565,352	(892,876)	**13,672,476**	9,182,978	**(4,489,498)**	
	5,026,769,997	**64,983,816**	**5,091,753,813**	**5,193,028,482**	**101,274,669**	
Total Assets	**5,900,385,144**	**21,721,749**	**5,922,106,893**	**5,215,397,330**	**(706,709,563)**	
Liabilities						
Current Liabilities						
Other financial liabilities	-	(63,000,000)	**(63,000,000)**	72,000,000	**135,000,000**	
Payables from exchange transactions	510,672,478	109,443,626	**620,116,104**	316,336,962	**(303,779,142)**	
Taxes and transfers payable (non-exchange)	92,000,000	-	**92,000,000**	45,096,952	**(46,903,048)**	
VAT payable	-	(1,500,000)	**(1,500,000)**	-	**1,500,000**	
Consumer deposits	4,409,170	-	**4,409,170**	4,409,170	**-**	
Unspent conditional grants and receipts	55,917,151	28,482,855	**84,400,006**	71,014,113	**(13,385,893)**	
Provisions	54,133,400	-	**54,133,400**	68,941,365	**14,807,965**	
	717,132,199	**73,426,481**	**790,558,680**	**577,798,562**	**(212,760,118)**	
Non-Current Liabilities						
Other financial liabilities	3,454,323	(14,447,544)	**(10,993,221)**	923,541,321	**934,534,542**	
Provisions	-	-	**-**	8,124,820	**8,124,820**	
	3,454,323	**(14,447,544)**	**(10,993,221)**	**931,666,141**	**942,659,362**	
Total Liabilities	**720,586,522**	**58,978,937**	**779,565,459**	**1,509,464,703**	**729,899,244**	
Net Assets	**5,179,798,622**	**(37,257,188)**	**5,142,541,434**	**3,705,932,627**	**(1,436,608,807)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	5,378,323,173	67,495,318	**5,445,818,491**	3,705,932,627	**(1,739,885,864)**	

Accounting Policies

Figures in Rand	Note(s)	2021	2020

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 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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.

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 municipality.

1.2 Going concern assumption

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

1.3 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:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

Value in use of cash generating assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non- cash generating assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.4 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 municipality; 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.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

1.4 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

Item	Depreciation method	Average useful life
Land	Straight line	indefinite
Buildings	Straight line	65 years
Plant and machinery	Straight line	5-21 years
Furniture and fixtures	Straight line	3-26 years
Transport assets	Straight line	4-40 years
Office equipment	Straight line	2-30 years
Computer equipment	Straight line	2-12 years
Infrastructure	Straight line	5-80 years
Community assets	Straight line	30 years
Other property, plant and equipment	Straight line	3-27 years

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

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

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 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 further 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 municipality 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.

1.5 Intangible assets

An asset is identifiable if it either:

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

1.5 Intangible assets (continued)

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 municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s 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.

An intangible asset arising from development (or from the development phase of an internal project) 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.

After initial recognition, intangible assets are carried at revalued amount, being fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

Any increase in the carrying amount of an intangible asset, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in the carrying amount of an intangible asset, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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	Useful life
Computer software, other	3-20 years

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial 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.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

1.6 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.6 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payable from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

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

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

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

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.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does 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.

Financial assets measured 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.

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.7 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

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 - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

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.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

1.9 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

1.10 Impairment of cash-generating assets (continued)

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

1.11 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital / contributed capital

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

1.13 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.13 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality 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 municipality 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.

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

Provisions are not recognised for future operating surplus.

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

1.14 Provisions and contingencies (continued)

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

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 municipality 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 municipality 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 municipality considers that an outflow of economic resources is probable, an municipality 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.

1.15 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.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

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

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure is defined in section 1 of MFMA as follows:"unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-

(a) overspending of the total amount appropriated in the municipality's approved budget;
(b) overspending of the total amount appropriated for a vote in the approved budget;
(c) expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) expenditure of money appropriated for a specific purposes, otherwise than for that specific purpose;
(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation;or
(f) a grant by the municipality otherwise than in accordance with this Act.

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.

1.20 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.

1.21 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:

“irregular expenditure”, in relation to a municipality or municipal entity, means—

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

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.

1.22 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
-approved and contracted commitments;
-where the expenditure has been approved and the contract has been awarded at the reporting date; and
-where disclosure is required by a specific standard of GRAP.

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2020 to 6/30/2021.

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.

1.25 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 municipality, including those charged with the governance of the municipality 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 municipality.

Accounting Policies

1.25 Related parties (continued)

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

1.26 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.27 Value-added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.
The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position

The report on the Value added tax in the Annual Financial Statements is accounted for using the accrual basis.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

2. Inventories

Maintenance materials	34,282,925	22,606,819
Water for distribution	2,319,375	2,319,375
Consumable stores	6,668,546	4,632,313
	43,270,846	**29,558,507**

Water for distribution

Opening balance	2,319,375	2,319,375

3. Receivables from exchange transactions

Gross balance		
Consumer debtors	3,422,529,343	1,971,037,432
Consumer debtors - Musina	-	5,837,350
	3,422,529,343	**1,976,874,782**
Less: Allowance for impairment	-	-
Provision for debt impairment	(3,411,537,400)	(1,945,900,059)
	(3,411,537,400)	**(1,945,900,059)**

3. Receivables from exchange transactions (continued)

Net balance		
Consumer debtors	3,422,529,343	1,971,037,432
Consumer debtors - Musina	-	5,837,350
Provision for debt impairment	(3,411,537,400)	(1,945,900,059)
	10,991,943	**30,974,723**

Water		
Current	27,613,988	31,967,393
30 Days	19,775,374	19,590,558
60 Days	22,356,125	18,606,599
90 Days	41,855,628	14,126,731
120 Days	21,811,491	13,405,014
150 Days	23,247,142	17,434,581
180 Days	27,743,202	58,741,210
210 Days to over year	3,238,126,395	1,803,002,695
	3,422,529,345	**1,976,874,781**
Provision for debt Impairment	**(3,411,537,400)**	**(1,945,900,059)**
Total receivables from exchange transactions	3,422,529,343	1,976,874,782

Reconciliation of allowance for impairment

Balance at beginning of the year	(1,945,900,059)	(1,831,073,339)
Contributions to allowance	(1,465,637,341)	(114,826,720)
	(3,411,537,400)	**(1,945,900,059)**

4. Receivables from non-exchange transactions

Debtors - Musina Local Municipality	310,316,225	279,412,750
Other receivables	28,386	28,386
Impairments	(310,344,611)	(279,412,750)
	-	**28,386**

5. VAT receivable

VAT	-	26,784,061

6. Property, plant and equipment

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	17,870,000	-	17,870,000	17,870,000	-	17,870,000
Buildings	122,572,885	(43,187,345)	79,385,540	122,572,885	(39,078,418)	83,494,467
Plant and machinery	16,620,273	(7,691,398)	8,928,875	9,132,113	(6,869,129)	2,262,984
Furniture and fixtures	12,617,908	(7,892,112)	4,725,796	12,490,295	(7,851,127)	4,639,168
Transport assets	103,893,372	(52,403,215)	51,490,157	88,152,167	(44,914,828)	43,237,339
Computer equipment	12,869,069	(6,839,600)	6,029,469	7,394,890	(5,800,985)	1,593,905
Infrastructure	3,691,570,261	(843,197,785)	2,848,372,476	3,563,002,245	(687,643,107)	2,875,359,138
Community assets	24,444,595	(5,466,078)	18,978,517	41,968,032	(9,962,297)	32,005,735
Other property, plant and equipment	26,377,778	(18,415,834)	7,961,944	25,864,114	(15,456,252)	10,407,862
Leased assets	2,876,352	(2,876,354)	(2)	2,876,352	(2,551,308)	325,044
Work in progress	2,140,102,732	-	2,140,102,732	1,672,546,167	-	1,672,546,167
Total	**6,171,815,225**	**(987,969,721)**	**5,183,845,504**	**5,563,869,260**	**(820,127,451)**	**4,743,741,809**

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	17,870,000	-	-	-	-	-	-	-	17,870,000
Buildings	83,494,467	-	-	-	-	-	(4,108,927)	-	79,385,540
Plant and machinery	2,262,984	7,488,160	-	-	-	-	(672,346)	(149,923)	8,928,875
Furniture and fixtures	4,639,168	1,289,599	(6,065)	-	-	-	(1,141,713)	(55,193)	4,725,796
Transport assets	43,237,339	15,741,207	(3)	-	-	-	(7,382,652)	(105,734)	51,490,157
Computer equipment	1,593,905	5,641,033	(5,992)	-	-	-	(1,192,550)	(6,927)	6,029,469
Infrastructure	2,875,359,138	42,053,552	(1)	108,891,189	-	132,893	(174,890,341)	(3,173,954)	2,848,372,476
Community assets	32,005,735	1,304,154	-	-	(13,177,380)	-	(1,153,992)	-	18,978,517
Other property, plant and equipment	10,407,862	630,515	(32)	-	-	(132,893)	(2,884,149)	(59,359)	7,961,944
Leased Assets	325,044	-	-	-	-	-	(325,046)	-	(2)
Work in progress	1,672,546,167	576,447,754	-	-	(108,891,189)	-	-	-	2,140,102,732
	4,743,741,809	**650,595,974**	**(12,093)**	**108,891,189**	**(122,068,569)**	**-**	**(193,751,716)**	**(3,551,090)**	**5,183,845,504**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers	Prior year errors	Depreciation	Impairment loss	Total
Land	6,350,000	-	-	11,520,000	-	-	-	-	17,870,000
Buildings	87,614,019	-	-	-	-	-	(4,119,552)	-	83,494,467
Plant and machinery	4,006,770	-	-	-	-	-	(1,183,378)	(560,408)	2,262,984
Furniture and fixtures	5,466,628	682,435	(14,833)	-	-	(8,500)	(1,379,113)	(107,449)	4,639,168
Transport assets	32,563,747	18,748,772	-	-	-	-	(7,195,841)	(879,339)	43,237,339
Computer equipment	1,978,198	469,453	-	-	-	-	(836,458)	(17,288)	1,593,905
Infrastructure	2,914,466,311	33,697,852	-	119,613,568	-	316,223	(186,900,710)	(5,834,106)	2,875,359,138
Community assets	20,380,224	-	-	-	12,764,524	-	(1,139,013)	-	32,005,735
Other property, plant and equipment	11,864,583	5,151,981	-	(1,904,339)	-	(470,958)	(3,735,086)	(498,319)	10,407,862
Leased Assets	1,284,458	-	-	-	-	-	(959,414)	-	325,044
Work in progress	1,289,844,887	502,315,148	-	-	(119,613,868)	-	-	-	1,672,546,167
	4,375,819,825	**561,065,641**	**(14,833)**	**129,229,229**	**(106,849,344)**	**(163,235)**	**(207,448,565)**	**(7,896,909)**	**4,743,741,809**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

6. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Other leased Assets	(2)	325,044

Projects with significant delays

Delayed Project			
Makhado West Bulk Water Supply	Countrywide lockdown from 26 March until to date impact on the delay of the project with more than 2 months. Limitation of production due to covid 19 regulation which only limited number of employees on site	395,689,372	-
Increasing the capacity of vondo WTW & upgrade of water related infrastructure	Limited Budget to resume with construction	225,085,278	-
Thohoyandou - Construction of 10M resevoir at R3 site (Miluwani/Tshidaulu)	Contractor and Engineer has been terminated due to poor workmanship	20,628,123	-
Malonga Water Reticulation (Makhado)	Labour unrest in demand of the Covid-19 relief money, leading to stoppage of work delayed the project by more than a month. There is theft of taps and as such it was decided to remove them until the practical completion	182,633,989	-
Musthedzi RWS : Tshirolwe Surrounding villages	Project has been delayed due to heavy rainfall during January and February and due to COVID-19 Lockdown	232,340,899	-

6. Property, plant and equipment (continued)

		2021	2020
Construction of Bulk pipeline from Vuwani to Vyeboom and construction of reservoir (Makhado)	Labour on strike because they have not yet been paid UIF relief fund by the department of labour, the contractor has de-established the site	139,495,005	-
Mashau and Surrounding villages Bulk Water Supply and Reticulation	Slow progress on the construction of 3.5ML regional reservior due to land issue affecting the project	188,972,212	-
Damani RWS	Project has been delayed due to heavy rainfall and due to lockdown by COVID-19	57,084,642	-
Stalled Project			
Nandoni RWS: Construction of bulk pipeline from vuwani to middle letaba	There have been challenges with regard to the release of the retention quarantee and this causes the project to be on hold	218,635,783	-
Mutale RWS: Upgrading of purification works	The project has been uploaded on the MIG MIS for budget maintanance	30,027,019	-
Malamulele East Jerome water (Xigalo Villages)	Contractor has been terminated due to poor workmanship	8,681,732	-
Thohoyandou Block R & K extension water reticulation	Project has been delayed due to heavy rainfall and Covid-19 lockdown	5,594,009	-
Upgrading and construction of water reticulation system at Maungani East Villgae	Project has been delayed due to heavy rainfall and Covid-19 lockdown	5,963,685	-
		1,710,831,748	**-**

Nandoni RWS: Construction of bulk pipe line from Vuwani to Middle Letaba, Xikundu Mhinga Bulk Water supply Saselamani, Botsoleni Mphophe, Mutale RWS: Upgrading of purification Works

7. Intangible assets

	2021			2020		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	19,478,892	(10,295,914)	9,182,978	18,803,892	(7,811,156)	10,992,736

Reconciliation of intangible assets - 2021

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	10,992,736	675,000	(2,484,758)	9,182,978

Reconciliation of intangible assets - 2020

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	11,915,356	1,233,622	(2,156,242)	10,992,736

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	100,615,095	267,612,664
Short-term deposits	313,769	310,202
	100,928,864	**267,922,866**

Figures in Rand	2021	2020

8. Cash and cash equivalents (continued)

Investment in VBS

The municipality had an investment with VBS mutual bank. The municipality has not withdrawn all of the money invested prior to VBS being placed under curatorship on 11 March 2018 amounting R 317 382 956. The amount was fully impaired in the 2017/2018 financial year. An impairment assessment was done during the current financial year and no changes requiring adjustment to the impairment were identified

	2021	2020
Investment in VBS	317,382,956	317,382,956
Impairment provision	(317,382,956)	(317,382,956)
Net Balance	**-**	**-**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2021	**June 30, 2020**	**June 30, 2019**	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**
FNB BANK - Current account (main) - 62021931458	10,824,995	95,356,219	141,192,287	5,628,172	84,426,853	116,072,180
FNB BANK - Thulamela water - 62370162733	43,418,999	140,676,704	88,440,437	42,577,039	140,331,453	88,569,731
FNB BANK - Makhado water - 6238768968	50,895,314	41,159,883	29,131,093	50,745,541	41,196,273	29,147,912
FNB BANK - Mutale water - 62407577131	2,179,150	1,914,613	13,558,381	2,226,901	1,932,851	1,358,381
Total	**107,318,458**	**279,107,419**	**272,322,198**	**101,177,653**	**267,887,430**	**235,148,204**

9. Finance lease obligation

	2021	2020
Minimum lease payments due		
- within one year	-	591,189

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2021	2020
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	29,291,939	82,725,189
Municipal Water Infrastructure Grant	16,226,307	27,422,392
Local Government Financial Management Grant	250,181	-
Expanded Public Works Programme Integrated Grant	145,268	313,358
Disaster Relief Grant	2,086,000	2,086,000
RBIG	23,014,418	-
	71,014,113	**112,546,939**

11. Other Financial liabilities

	2021	2020
Department of Water and Sanitation	667,452,635	689,782,880
Makhado Local Municipality	45,881,800	87,881,800
Musina Local Municipality	282,206,886	254,804,854
	995,541,321	**1,032,469,534**
Total other financial liabilities	**995,541,321**	**1,032,469,534**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

11. Other Financial liabilities (continued)

Non-current liabilities		
Department of Water Affairs	631,452,635	653,782,880
Makhado Local Municipality	9,881,800	51,881,800
Musina Local Municipality	282,206,886	254,804,854
	923,541,321	**960,469,534**

Current liabilities		
Department of Water Affairs	36,000,000	36,000,000
Makhado Local Municipality	36,000,000	36,000,000
	72,000,000	**72,000,000**

Agreed repayment of debt is R3million per month with DWS and Makhado Local Municipality with no interest charges

12. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave provision	60,580,333	9,470,985	(2,443,846)	-	67,607,472
Performance bonus	91,138	-	-	-	91,138
Long service award	9,179,424	1,280,215	-	(1,092,064)	9,367,575
	69,850,895	**10,751,200**	**(2,443,846)**	**(1,092,064)**	**77,066,185**

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave provision	47,150,066	16,766,397	(3,336,130)	-	60,580,333
Performance bonus	91,138	-	-	-	91,138
Long service award	6,892,196	3,887,230	-	(1,600,002)	9,179,424
	54,133,400	**20,653,627**	**(3,336,130)**	**(1,600,002)**	**69,850,895**

	2021	2020
Non-current liabilities	8,124,820	6,909,450
Current liabilities	68,941,365	62,941,445
	77,066,185	**69,850,895**

Leave provision

Employee entitlement to annual leave is recognised when it accrues. A provision is made on the estimated liability for annual leave as a result of services rendered by employees up on the amount of the obligations. Provisions at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it no longer probable that an outflow of resources embodying economics benefits or services potential will be required to settle the obligation

Performance Bonus provision

The provision relate to performance bonuses that were provided for in prior years based on performance agreements for which it is still probable that there will be economic outflows for the municipality as at current financial year end.

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Long Service Award provisions

Benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. The leave days awarded have been converted to a percentage of annual salary to the next interval by allowing for future growth. The key assumptions used are the discount rate of 6.91%, CPI of 3.89%, salary increase rate of 4.89% which gave us a net discount rate of 1.93%, average retirement age of 63, withdrawal rates and ill health and other early termination rates were determined according to age groups.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

13. Payables from exchange transactions

Trade payables	22,764,557	14,689,697
Payments received in advanced	27,613,322	42,012,743
Retention	166,873,677	131,056,462
Accrued bonus	12,908,546	13,175,639
Accrued expense	56,685,666	176,560,713
Other payables	(1,718,924)	4,522,795
Sundry deposits	20,780,941	20,571,963
Deffered revenue from water connections	10,429,192	9,047,507
	316,336,977	**411,637,519**

14. Transfers payable (non-exchange)

Transfers payable	45,096,952	45,096,952

15. Consumer deposits

Water	4,409,170	4,409,170

16. Revenue

Sale of Tender documents	2,889,246	2,472,170
Service charges - Water and Sanitation	1,286,883,407	766,326,706
Rental of facilities and equipment	298	996
Licences and permits	3,737	1,624
Operational revenue	545,232	1,159,374
Interest received	29,019,360	38,708,122
Government grants & subsidies	1,881,944,788	1,546,583,092
	3,201,286,068	**2,355,252,084**

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

Sale of tender documents	2,889,246	2,472,170
Service charges - Water and Sanitation	1,286,883,407	766,326,706
Rental of facilities and equipment	298	996
Licences and permits	3,737	1,624
Operational revenue	545,232	1,159,374
Interest received	29,019,360	38,708,122
	1,319,341,280	**808,668,992**

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

Taxation revenue		
Licences or permits	171,310	99,217
Transfer revenue		
Government grants & subsidies	1,881,944,788	1,546,583,092
	1,882,116,098	**1,546,682,309**

Basis on which fair value of inflowing resources was measured

17. Service charges

Water and Waste Water management	1,286,883,407	766,326,706

Figures in Rand	2021	2020

18. Rental of facilities and equipment

Premises		
Premises	298	996

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19. Licences and permits (exchange)

Licences and permits	3,737	1,624

20. Operational revenue

Water connections & Sanitation	545,232	1,159,374

21. Interest revenue

Interest revenue		
Bank accounts	13,316,280	27,317,351
Interest on receivables	15,703,080	11,390,771
	29,019,360	**38,708,122**

22. Gain (Loss) on sale of assets

Gain and (losses) on sale of assets	(13,189,473)	11,586,618

23. Actuarial losses

Actuarial gains/losses	-	(1,600,002)

24. Inventory Consumed

Inventory consumptions	(14,587,556)	(18,776,129)

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

25. Government grants and subsidies

Operating grants		
Equitable share	1,227,876,000	996,112,804
Public Transport Network Grant	2,268,000	2,383,000
Expanded public works programme grant	936,090	1,275,642
Financial management grant	2,449,819	2,330,000
	1,233,529,909	**1,002,101,446**
Capital grants		
Municipal infrastructure grant	558,254,250	520,116,828
Water services infrastructure grant	23,946,085	24,364,818
Regional bulk infrastructure grant	66,214,544	-
	648,414,879	**544,481,646**
	1,881,944,788	**1,546,583,092**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	654,068,788	573,156,000
Unconditional grants received	1,227,876,000	993,123,194
	1,881,944,788	**1,566,279,194**

Municipal Infrastructure Grant

Balance unspent at beginning of year	82,725,189	88,074,017
Current-year receipts	504,821,000	514,768,000
Conditions met - transferred to revenue	(558,254,250)	(520,116,828)
	29,291,939	**82,725,189**

Conditions still to be met - remain liabilities (see note 10).

Municipal Infrastructure Grant is used for the provision of capital finance for the eradication of basic municipal infrastructure backlogs for poor households and social infrastructure servicing the poor and provide finding for the development of asset management plans for infrastructure servicing the poor.

Water Services Infrastructure Grant

Balance unspent at beginning of year	27,422,392	2,780,252
Current-year receipts	12,750,000	50,000,000
Conditions met - transferred to revenue	(23,946,085)	(24,364,818)
Other	-	(993,042)
	16,226,307	**27,422,392**

Conditions still to be met - remain liabilities (see note 10).

Water Service Infrastructure Grant facilitates the planning and implementation of various water and sanitation projects to accelerate backlog reduction and enhance the sustainability of services.

Financial Management Grant

Balance unspent at beginning of year	-	83,653
Current-year receipts	2,700,000	2,330,000
Conditions met - transferred to revenue	(2,449,819)	(2,413,653)

Figures in Rand	2021	2020

25. Government grants and subsidies (continued)

	250,181	**-**

Conditions still to be met - remain liabilities (see note 10).

Local Government Finance Management Grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the municipal finance management act.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

25. Government grants and subsidies (continued)

Expanded Public Works Programme

Balance unspent at beginning of year	313,358	418,107
Current-year receipts	768,000	1,589,000
Conditions met - transferred to revenue	(936,090)	(1,693,749)
	145,268	**313,358**

Conditions still to be met - remain liabilities (see note 10).

Expanded Public Works Programme is used to expand work creation efforts through the use of labour-intensive delivery methods.

Rural Roads Asset Management Systems Grant

Current-year receipts	2,268,000	2,383,000
Conditions met - transferred to revenue	(2,268,000)	(2,383,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 10).

Rural Roads Asset Management Systems Grant assists the district municipalities to set-up rural roads and asset management systems and collect road, bridges and traffic data on municipal road networks

Water and operation subsidy

Balance unspent at beginning of year	2,086,000	2,086,000

Conditions still to be met - remain liabilities (see note 10).

Regional Bulk Infrastructure Grant

Current-year receipts	89,228,964	-
Conditions met - transferred to revenue	(66,214,544)	-
	23,014,420	**-**

Conditions still to be met - remain liabilities (see note 10).

Regional Bulk Infrastructure Grant assists in the development of regional bulk water infrastructure and regional bulk sanitation collection as well as regional water and waste water treatment works.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

26. Employee related costs

Basic	400,042,553	380,270,737
Bonus	32,033,410	31,938,383
Social contributions: Medical aid	17,664,115	16,430,540
Social contributions: Unemployment Insurance Fund	2,791,623	3,100,134
Leave pay provision charge	9,470,987	16,744,401
Social contributions: Bargaining Council	180,452	149,285
Social contributions: Pension	71,374,903	63,808,280
Allowance: Travel or motor car, accommodation, subsistence	1,232,342	26,581,196
Allowance: Overtime	64,121,131	53,071,766
Other benefits: Long-service awards	5,944,297	1,782,843
Car allowance	32,933,156	622,253
Allowance: Housing benefits	8,352,848	330,632
Allowance: Standby	2,622,532	10,620,497
Allowance: Other	-	480
Cellphone Allowance	1,826,501	2,000
In kind allowance	131,009	-
	650,721,859	**605,453,427**

Municipal Manager

Annual Remuneration	846,340	853,684
Car Allowance	276,023	266,714
Backpay	-	28,367
Contributions to UIF, Medical and Pension Funds	220,255	266,714
Acting Allowance	-	54,651
Cellphone Allowance	27,500	27,500
Subsistence Allowance	20,392	3,529
Bonus	-	76,940
Car Reimbursement	-	41,700
	1,390,510	**1,619,799**

Figures in Rand	2021	2020

26. Receivables from exchange transactions (continued)

Chief Finance Officer

Annual Remuneration	600,000	218,549
Car Allowance	233,807	76,554
Performance Bonuses	47,171	-
Contributions to UIF, Medical and Pension Funds	202,886	69,951
Cellphone Allowance	24,000	8,000
Acting Allowance	-	77,835
	1,107,864	**450,889**

Technical Manager

Annual Remuneration	1,411,124	664,058
Car Allowance	401,341	188,867
Contributions to UIF, Medical and Pension Funds	448,102	18,073
Acting Allowance	36,878	34,472
Subsistence Allowance	320	240
Cellphone Allowance	26,400	14,400
Backpay	5,078	-
Bonus	117,594	-
Car Reimbursement	10,500	-
	2,457,337	**920,110**

General Manager Planning

Annual Remuneration	754,736	776,954
Car Allowance	94,800	94,860
Contributions to UIF, Medical and Pension Funds	137,638	152,639
Cellphone Allowance	24,000	24,000
Subsistence Allowance	485	1,663
Bonus	62,895	65,116
Car Reimbursement	-	46,296
Housing Allowance	198,098	198,098
	1,272,652	**1,359,626**

General Manager Corporate Services

Annual Remuneration	251,579	289,799
Car Allowance	74,040	52,555
Contributions to UIF, Medical and Pension Funds	58,922	57,464
Acting Allowance	49,994	115,117
Cellphone Allowance	6,000	6,000
Bonus	-	24,150
	440,535	**545,085**

General Manager Community Services

Annual Remuneration	754,736	776,954
Car Allowance	240,281	233,716
Contributions to UIF, Medical and Pension Funds	-	210,965
Bonus	62,895	65,116
Medical	60,560	-
Cellphone Allowance	22,000	24,000
Car Reimbursement	5,322	-
Car Tax	1,925	-

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

26. Receivables from exchange transactions (continued)

	1,147,719	**1,310,751**

27. Depreciation and amortisation

Property, plant and equipment	193,751,716	209,604,808
Intangible assets	2,484,758	-
	196,236,474	**209,604,808**

28. Impairment of assets

Impairments		
Property, plant and equipment	3,551,089	5,432,325
Trade and other receivables	1,486,678,031	1,072,867,043
	1,490,229,120	**1,078,299,368**

29. Finance costs

Interest on late payments	141,480	348,044

30. Bulk purchases

Water	95,053,206	88,827,149

31. Contracted services

Outsourced Services		
Administrative and Support Staff	475,762	83,320
Business and Advisory	15,372,914	190,000
Call Centre	13,082	-
Personnel and Labour	8,445,386	17,958,150
Professional Staff	-	441,940
Consultants and Professional Services		
Business and Advisory	11,587,365	34,926,324
Infrastructure and Planning	380,145	-
Laboratory Services	2,734,835	8,131,275
Legal Cost	34,265,432	33,662,139

Figures in Rand	2021	2020

31. Contracted services (continued)

Contractors		
Catering Services	14,700	-
Employee Wellness	3,731,043	111,390
Event Promoters	482,184	303,904
Maintenance of Buildings and Facilities	1,897,133	1,362,363
Maintenance of Equipment	210,527,062	286,889,220
Maintenance of Unspecified Assets	7,729,998	1,911,328
	297,657,041	**385,971,353**

32. General expenses

Audit Fees	7,519,813	5,301,136
Advertising	1,488,502	1,823,366
Assessment rates & municipal charges	86,118,560	73,063,575
Bank charges	378,397	409,717
Licences	848,170	642,259
Entertainment	999	24,980
Copyright fees	4,275	23,625
Lease rentals on operating lease	2,315,931	1,510,789
Insurance	2,577,250	4,458,681
Conferences and seminars	80,646	336,658
Computer expenses	1,420,643	2,595,204
Skills development fund	5,400,465	1,682
Fuel and oil	10,781,315	8,341,681
Postage and courier	6,990	292,047
Printing and stationery	118,476	245,022
Protective clothing	2,180,265	88,348
Subscriptions and membership fees	6,694,632	6,190,272
Telephone and fax	3,457,381	4,003,844
Travel - local	113,375	2,430
Water services expenditure	23,827,854	8,691,688
Utilities - Other	177,300	-
Accommodation	408,308	2,152,546
Mayor's bursary fund	492,043	670,435
Chemicals	-	14,873,889
Marketing	274,580	-
	156,686,170	**135,743,874**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

33. Cash used in operations

Surplus (deficit)	272,531,723	(172,351,574)
Adjustments for:		
Depreciation and amortisation	196,236,474	209,604,808
Gain/Loss on sale of property	13,189,473	-
Impairment loss	1,490,229,120	1,078,299,368
Movement in provisions		
Provisions relating to employee costs	7,215,290	15,225,764
Actuarial Losses	-	1,600,002
Changes in working capital:		
Inventories	(13,712,339)	3,292,088
Receivables from exchange transactions	(2,117,582,410)	(1,551,106,959)
Other receivables from non-exchange transactions	28,386	248,499,325
Vat Receivable	26,784,061	244,439,933
Vat payable	132,822,805	-
Payables from exchange transactions	(95,300,558)	(80,837,188)
Unspent conditional grants and receipts	(41,532,826)	(21,190,910)
Other liability	(36,928,213)	(508,460)
	(166,019,014)	**(25,033,803)**

34. VAT payable

Tax refunds payables	132,822,805	-

35. Remuneration of councillors

Executive Mayor	934,650	904,256
Chief Whip	711,187	713,124
Mayoral Committee Members	3,613,791	2,838,779
Speaker	755,878	757,478
Councillors	8,407,770	9,451,701
	14,423,276	**14,665,338**

Figures in Rand	2021	2020

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	1,341,421,354	1,226,422,897
Total capital commitments		
Already contracted for but not provided for	1,341,421,354	1,226,422,897

Authorised operational expenditure

Already contracted for but not provided for		
• Office Software	3,450,747	6,553,016
• Virtual Private Network (VPN)	811,991	4,059,957
• Provision of Global System device GPS	-	159,600
• Provision of CCTV assessment, reinstate and installation	49,886	461
• Provision of Lan upgrade for fire station	9,273,399	675,000
• Provision of Quarterly Newsletter	81,000	268,000
• Refurbishment, Testing, Drilling and Cleaning of Boreholes and Water Pumps	2,140,359	5,745,491
• Relocation of records management	-	58,328
• Repairs of office equipment, plant, and transport assets	6,545,298	530,755
• Storage Server Visualisation	-	129,375
• Supply of laptops	-	6,278,527
• Supply of uniforms and protective clothes	3,304,073	21,400
• Provision of Advertisements	251,066	-
• Supply of material	14,427,294	-
• Provision of professional services	5,963,735	-
• Provision of PPE verification	11,387,760	-
• Supply of trucks and tractors	6,989,709	-
	64,676,317	**24,479,910**
Total operational commitments		
Already contracted for but not provided for	64,676,317	24,479,910

Total commitments

Total commitments		
Authorised capital expenditure	1,341,421,354	1,226,422,897
Authorised operational expenditure	64,676,317	24,479,910
	1,406,097,671	**1,250,902,807**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc. Management have noted deviations from supply chain process amounting to R4,807,923 in the current reporting period..

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	3,435,609	2,183,363
- later than five years	9,525,385	8,908,132
	12,960,994	**11,091,495**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

37. Contingencies

Contingent Liabilities:

Capstain Trading 215 CC	608,660	608,660
Getrudsburg Community	17,375,599	17,375,599
Tshifaro Mukhethwa Andy	222,000	222,000
Generic Core/Debrob Business Enterprises	904,924	904,924
Tricks Wrought Iron Services (Pty) Ltd	1,419,871	1,419,871
Gudani Security	-	2,300,064
Sharon Pipeline Specialists	2,488,975	2,488,975
Nevondo Azwihangwisi Andries	2,000,000	2,000,000
Tinyiko Manganyi OBO Manganyi Andile	1,000,000	4,100,000
Mudalamo Madalo (Mandiwana Tshifhiwa)	33,318	33,318
Tshwane Trading	595,650	595,650
Konani Trading	783,864	783,864
K. T. Ntsikazi	3,708,956	3,708,956
Stan South Financial and Investment Services cc	11,644,558	11,644,558
Hermans Truck Accident Repairs (Pty) Ltd	142,843	142,843
Risimati Christopher Mabasa	35,108	35,707
Babusekile Business Enterprises	2,312,958	2,312,958
RYM Construction Enterprise	2,033,290	2,033,290
Advocate Nemugomoni	178,524	178,524
BMK Electronics	3,899,782	3,899,782
Tshavhungwe Tshambiluni Godfrey	780,000	780,000
Johan Van Der Horst	514,158	514,158
Phuluwa Thinashaka Reuben	3,500,000	3,500,000
Minister of Water and Sanitation	267,397,882	193,038,213
Molozi Trust	703,756	-
Farisani Nditwani	151,500	-
	324,436,176	**254,621,914**

1. Capstain Trading
Capstain Trading is litigating against the Municipality and they are alleging that they are owed for service rendered.
The municipality contracted the plaintiff who subsequently entered into cession agreement with a third party, which cession was approved by the municipality.
The third party provided the service and was paid the contract amount of R608 660. The municipality paid the third party on the strength of the cession agreement. Capstain Trading is claiming that the contract fee should have been paid to them and not the third party. The case is still pending, and the estimated claim is R608 660

2. Getrusburg Community Property Association

The Association is suing the Makhado Municipality for R17,375,599.00 for drawing borehole water from its premises without consent. Makhado Municipality has joined VDM as a Water Services Authority. The Municipality is defending the case.

Attorneys = Tshiredo Attorneys

3. Tshifaro Mukethwa Andy

Tshifaro Mukhethwa Andy has instituted a claim against the Municipality of R222,000 in that his vehicle was involved in an accident which he claims was caused by a vehicle belonging to the Municipality. The plaintiff is claiming that the Municipal vehicle was the sole cause of that accident The Municipality is defending the matter.

4. Generic Core/Denrob Business Enterprises

37. Contingencies (continued)

Generic Core, a sub-contractor, is suing Denrob Business Enterprises for R 904,924.10 for work performed. The Municipality is a joinder due to a contractual relationship with Denrob Enterprises as the main contractor. The estimated disbursement is R400,000.00 and the case is still pending.

5. Tricks Wrought Iron Services (Pty) Ltd

Tricks Wrought instituted a claim of R 1,419,871.00 for not honoring a cession agreement. The Municipality contracted Ratekuwa who subsequently entered into a cession agreement with Tricks Wrought, the plaintiff, which cession was approved by the Municipality. Tricks Wrought provided the service and the municipality paid the main contractor, Ratekuwa.

Tricks Wrought is claiming that the money for the service rendered should have been paid directly to them and not to the main contractor, Ratekuwa. The Municipality is disputing the claim.

6. Gudani Security

Gudani Security is litigating against the Municipality as they are alleging that they have rendered security service and have not been paid. They are suing the municipality for an amount of R2,300,064.00. The plaintiff has since muted or not pursuing the matter.

7. Sharon Pipeline Specialists

Sharon pipeline is litigating against the municipality as they are alleging that they provided services and have not been paid.Sharon is suing the municipality for an amount of R 2,488,975. The municipality is defending the case. The case is still pending.

8. Nevondo Azwihangwisi Andries

Mr. Nevondo Azwihangwisi is claiming that the Municipality is owing him an amount of R2,000,000.00 for pension. The municipality is defending the matter.

9. Tinyiko Mangayi Obo Manganyi Andile

Tinyiko has instituted a claim against the municipality alleging that there were bodily injuries sustained due negligence by the municipality. She is suing the municipality for an amount of R1,000,000.00.

10. Mundalamo Madala (Mandiwana Tshifhiwa)

Tshifiwa has instituted a claim against the Municipality as he alleges that there was an accident between his car and the Municipality's car which was being driven by Mundalamo A at the time of the accident. He claims an amount of R33,318 being damages suffered in repair of the car. The Municipality is defending the case.

11. Tshwane Trading

Tshwane has instituted a claim against the Municipality as they alleged that they have suffered damages because of the Municipality failing to comply with the training agreement that was concluded. The claim amount is R595,650.00. The case is still in house.

12. Konani Trading

Konani has instituted a claim against the municipality as they alleged that they have suffered damages as a result of the municipality failing to comply with the training agreement that was concluded. The claim amount is R 783,864.00. The case is still in house

13. K. T. Nsikazi.Com

Nsikazi is litigating against the municipality as they allege that they had leased the municipality IT hardware materials which upon expiry of the contract were never returned to them. They are claiming an amount of R3,708,956.36 being the value of iitems in possession of the municipality. The municipality is defending the case.

14. Stan South Financial and Investment Services CC.

37. Contingencies (continued)

Stan South Financial and Investment Services CC was appointed by the Municipality to assist in VAT recoveries from South African Revenue Authority (SARS). The Plaintiff is claiming an amount of R11,644,558 for the services rendered. The Municipality is defending the case.

15. Hermans Truck Accident Repairs (Pty) Ltd|

Hermans Truck Accident Repairs (PTY) LTD has instituted a claim against Vhembe District Municipality for not paying them an amount of R142,843. This amount is for towing and storage.

16. Risimati Christopher Mabasa

Risimati Christopher Mabasa has instituted a claim against the Municipality of R35,108 in that his vehicle was involved in an accident which he claims was caused by a vehicle belonging to the Municipality. The Municipality is defending the matter.

17. Babusekile Business Enterprises

Babusekile Business Enterprises is litigating against the Municipality as they are alleging that the Municipality is owing them R2,312,958.06 for services rendered. The Municipality is defending the matter. Technical acknowledges that they owe and therefore they will pay

18. RHYM Construction Enterprises

Rhym Construction Enterprises is litigating against the Municipality as they are alleging that the Municipality is owing them R2,033,290 for Retention. The Municipality is defending the matter.

19. Advocate Nemugumoni

The plaintiff Advocate Nemugomoni is suing the municipality, alleging that he was underpaid during his course of employment. Advocate Nemugomoni was an audit committee member of the municipality and he is alleging that the municipality used to compensate him based on an incorrect rate since March 2012. The municipality used to use the rate that was linked to the plaintiff’s qualification as opposed to the rate that was linked to the tittle. The plaintiff wishes to be compensated in a fair rate. The case is still pending, and the estimated claim is R178,524.00.

20. BMK Electronics

The plaintiff is suing the municipality for unpaid invoices for services rendered, the total estimated claim is: R3,899,782.

21. Tshavhungwe Tshambiluni Godfrey

The plaintiff is suing the municipality for an amount of R780,000 for damages in respect of pain and emotional suffering. The plaintiff is claiming that the Municipality exhumed the graves and the remains found in the Davhana Traditional area. The municipality was installing water pipelines. The Municipality is defending the matter**.**

22. Johan Van Der Horst

The plaintiff is litigating against the municipality as he alleges that he has lost his house due to fire as a result of negligence by municipality fire officials and their non-response on this case. He is claiming an amount of R514,158 as the value of the burnt house, furniture and clothing. The municipality is defending the case.

23. Phuluwa Thinashaka Reuben

The plaintiff is suing the municipality for injuries sustained while using the municipal vehicle, which did not have seat belt. The plaintiff is employed by the municipality and is alleging that the injuries could have been avoided had the seat belt was in place.The estimated claim amounts to R3,500,000.

24. **Minister of Water and Sanitation**

37. Contingencies (continued)

The Department of Water and Sanitation is claiming an amount of R934,844,517. relating to water sales as a long outstanding debt. Included in the long outstanding debt is an interest amount of R267,397,882 which can be waived only when the municipality writes an application letter to the Minister of Water and Sanitation requesting to write-off all interest relating to the long outstanding debt. This was agreed by both parties. The application can only be done once the contract between the two parties is signed of which it has been signed.

The municipality acknowledged the long outstanding capital debt but however did not acknowledged the interest portion. The waiver is pending the assessment of the letter by the Minister of Water and Sanitation.

25. Molozi Trust

The plaintiff is litigating against the municipality alleging that the municipality owes the Molozi Trust for unpaid servitudes. The plaintiff is claiming an amount of R703,756. The municipality is defending the matter.

26. Farisani Nditwani
Farisani issued summons to the tune of R151,500 in that her car sustained damages as a results of a pothole on the road.

38. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Members of key management	TS Ndou - Municipal Manager appointed (December 2019 to date) Chauke F - Acting Manager Technical Services appointed (December 2019 to August 2020) Tshikovha NC - General Manager appointed (March 2021 to date) Mphaphuli K - Acting General Manager Corporate Services - (December 2019 to August 2020) Moufhe TG - Acting General Manager Corporate Services - (September 2020 to February 2021) M Thangavhulelo - Chief Financial Officer - (March 2020 to date). Masakona TE - Acting General Manager Technical Services (September 2020 to June 2021)

Notes to the Annual Financial Statements

Figures in Rand

38. Related parties (continued)

Remuneration of management

Management class: Councillors

2021

Name	Basic salary	Cellphone Allowance	Subsistence Travel Allowance	Sitting Allowance	Total
Mayoral Committee	2,531,402	416,254	666,136	-	3,613,792
Councillors	5,531,663	474,546	1,492,871	908,692	8,407,772
Executive Mayor	893,850	40,800	-	-	934,650
Speaker	536,309	40,800	178,769	-	755,878
Chief Whip	670,387	40,800	-	-	711,187
	10,163,611	**1,013,200**	**2,337,776**	**908,692**	**14,423,279**

2020

Name	Basic salary	Cellphone allowance	Subsistence and travel Allowance	Arrears	Contribution to UIF,Medical Aid and Pension funds	Sitting Allowance	Acting Allowance	Total
Mayoral committee members	2,096,415	119,000	500,997	98,129	24,238	-	-	2,838,779
Councillors	6,257,918	775,200	1,526,515	237,961	70,339	541,007	33,999	9,442,939
Executive Mayor	862,336	40,800	1,120	-	-	-	-	904,256
Speaker	517,400	40,800	174,067	25,211	5,573	-	-	763,051
Chief Whip	619,893	40,800	26,858	23,635	5,126	-	-	716,312
	10,353,962	**1,016,600**	**2,229,557**	**384,936**	**105,276**	**541,007**	**33,999**	**14,665,337**

Additional information

Management class: Executive management

38. Related parties (continued)

Mayoral Committe members

2021

Name	Basic salary	Subsistence and Travel	Sitting Allowance	Backpay	Cellphone Allowance	Reimburseme nt	Total
Chavani Phahlela Joe	169,539	73,071	6,619	16,513	-	-	265,742
Machete Mahlomola Sylvia	91,118	28,857	-	-	-	-	119,975
Magada M Robert	169,539	75,228	4,413	16,513	-	836	266,529
Magada Samuel	252,017	90,804	-	3,883	40,800	-	387,504
Mathuka Ntsundeni Rose	502,790	239,353	-	-	40,800	-	782,943
Mbedzi Thinawanga Selina	502,790	231,704	-	-	40,800	-	775,294
Mukwevho Josephine	387,517	14,994	-	29,467	-	21,564	453,542
Radamba Ndivhuwo Calvin	88,397	-	-	-	17,000	-	105,397
	2,163,707	**754,011**	**11,032**	**66,376**	**139,400**	**22,400**	**3,156,926**

2020

Name	Basic salary	Subsistence and Travel Allowance	Cellphone Allowance	Arrears	Contribution to UIF, Medical Aid and Pension funds	Total
Chavani Phahlela Joe	443,164	147,722	37,400	23,635	6,088	658,009
Magada M Robert	485,064	162,754	40,800	23,535	5,648	717,801
Mathukha Ntsundeni Rose	341,562	21,516	-	13,662	3,560	380,300
Mbedzi Thinawanga Selina	485,063	166,084	40,800	23,635	5,344	720,926
Radamba Ndivhuwo Calvin	341,562	2,921	-	13,662	3,598	361,743
	2,096,415	**500,997**	**119,000**	**98,129**	**24,238**	**2,838,779**

Figures in Rand	2021	2020

39. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Trade and other payables from exchange transactions

Payables from exchange transactions decreased by R1 638 412. This is broken down into decrease of R1 422 575 due to the write-off of Trade Payables resulting from long outstanding balances that were not substantiated by invoices and a decrease of R215 833 due to reclassification of R329 922 from deferred revenue to Sundry deposits (R114 089) and revenue (R215 833). The Trade Payables written off were approved by Council.

Revenue from exchange transactions: service charges

Revenue increased by R575 117 033 in financial year 2020. Revenue estimates were done for years 2018-2020 as a response to the completeness finding raised by the auditor general in the financial year 2020 audit, adjustments were made to the prior periods, the adjustment relating to 2020 was for an amount of R574 901 200. The remainder of the increase is due to reclassification of revenue of R215 833 which was incorrectly recorded as deferred revenue from deferred revenue to revenue.

Receivables from exchange transactions: service charges

The gross balance of receivables increased by R1 650 645 342 due to revenue estimates that were done for financial years 2018 to 2020 as a response to the completeness finding raised by the auditor general in the financial year 2020 audit. The provision for impairment loss has also increased by R1 650 645 342 which will result a decrease of the receivables balance therefore giving us a net effect of R0 on the receivables from exchange transactions balance.

Vat receivables

VAT receivables has decreased by R247 358 116. The decrease is due to VAT output charged of R249 080 477 on revenue estimates made from financial years 2018-2020. The remainder of the change is due to an increase in VAT Receivables is from correction of error adjustments amounting to R1 720 898. The error arised as a result of incorrect segmentating of few expense segments. This error resulted in the VAT amount to bounce back to the expense item instead of the VAT item.The correction of error totalling to R1 720 898 affected the following items. External Audit Fees amounting to R795 170, Insurance Underwriting:Premiums amounting to R667 857, Municipal Services amounting to R117 130, Operating Leases amounting to R139 972, Professional Bodies Membership and Subscription amounting to R770. An increase VAT receivable amounting to R1 722 361 will results decrease in the above mentioned expense line items with the amounts mentioned above.

Property, plant and equipment

Property, plant and equipment increased by R2 154 843.Assets were written off in financial year 2020 without council approval, the correction of error is to reverse the write-off of the assets of R4 731 325. The remainder of the change is due to adjustment of recalculated impairment using the DRC Method amounting to R2 488 009 as well as adjustment to depreciation for water supply infrastructure of R88 477.

Inventory

Inventory increased by R15 081. The increase is due to inventory that was incorrectly recorded in the 2019 financial year being reversed and correctly recorded in the 2020 financial year.

Impairment losses

Impairment losses have increased by R678 842 361. The increase of R676 354 352 in provision for impairment relating to revenue estimates for 2020 financial year. The remainder of the change is due to adjustment of recalculated impairment using the DRC Method amounting to R2 488 009.

Loss on disposal of assets

Loss on disposal of assets has decreased by R4 731 235. Assets were written off in financial year 2020 without council approval, the correction of error is to reverse the write-off of the assets.

Figures in Rand	2021	2020

39. Prior-year adjustments (continued)

Inventory Consumed

Decrease in inventory consumed of R16 549 is due inventory of R15 081 that was incorrectly recorded in the 2019 financial year being reversed and correctly recorded in the 2020 financial year and the remainder of the change is from correction of error adjustments amounting to R1 469. The error arised as a result of incorrect segmentating of few expense segments. This error resulted in the VAT amount to bounce back to the expense item instead of the VAT item.

General expenses

General expenses decrease is from correction of error adjustments amounting to R1 720 898. The error arised as a result of incorrect segmentating of few expense segments. This error resulted in the VAT amount to bounce back to the expense item instead of the VAT item.The correction of error totalling to R1 720 898 affected the following items. External Audit Fees amounting to R795 170, Insurance Underwriting:Premiums amounting to R667 857, Municipal Services amounting to R117 130, Operating Leases amounting to R139 972, Professional Bodies Membership and Subscription amounting to R770.

Depreciation and armotisation

Depreciation and armotisation increased by R88 477 due to adjustment to depreciation for water supply infrastructure.

Statement of financial position

2020

	Note	As previously reported	Correction of error	Restated
Inventories		29,543,426	15,081	29,558,507
Receivable from exchange transaction		30,974,722	-	30,974,722
Receivable from non exchange transactions		28,387	-	28,387
Vat Receivable		274,142,177	(247,358,116)	26,784,061
Cash and Cash Equivalent		267,922,867	-	267,922,867
Property, plant and equipment		4,741,586,968	2,154,843	4,743,741,811
Intangible Assets		10,992,736	-	10,992,736
Payable from exchange transactions		(413,275,930)	1,638,412	(411,637,518)
Other Liabilities current portion		(326,804,854)	-	(326,804,854)
Trade and transfer payables (non exchange)		(45,096,952)	-	(45,096,952)
Consumer deposits		(4,409,170)	-	(4,409,170)
Unspent conditional grants		(112,546,939)	-	(112,546,939)
Provisions		(62,941,445)	-	(62,941,445)
Finance Lease obligation		(591,189)	-	(591,189)
Other Non Current Liabilities		(705,664,680)	-	(705,664,680)
Provision		(6,909,450)	-	(6,909,450)
Accumulated surplus		(3,676,950,674)	243,549,780	(3,433,400,894)
		-	-	-

Statement of financial performance

39. Prior-year adjustments (continued)

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
Water waste water management		189,072,097	-	(189,072,097)	-
Service Charges		-	575,117,033	191,209,673	766,326,706
Rendering of services		663,887	-	(663,887)	-
Sale of goods and rendering of service		-	-	2,472,170	2,472,170
Rental of facilities and equipment		996	-	-	996
Interest revenue		38,708,122	-	-	38,708,122
Sale of tender documents		1,804,829	-	(1,804,829)	-
Licence and Permits		1,624	-	-	1,624
Operational revenue		-	-	1,159,374	1,159,374
Other Income		3,300,404	-	(3,300,404)	-
Gains on disposal of assets		11,586,618	-	-	11,586,618
Government grant and subsidies		1,546,583,092	-	-	1,546,583,092
Licence and Permits		99,217	-	-	99,217
Employees related costs		(605,453,429)	-	-	(605,453,429)
Remuneration of councillors		(14,665,338)	-	-	(14,665,338)
Depreciation and armotisation		(209,516,332)	(88,476)	-	(209,604,808)
Impairment loss		(399,457,007)	(678,842,361)	-	(1,078,299,368)
Finance costs		(348,044)	-	-	(348,044)
Bulk Purchases		(88,827,149)	-	-	(88,827,149)
Contracted Services		(385,971,353)	-	-	(385,971,353)
Loss on disposal of assets		(4,731,325)	4,731,325	-	-
Actuarial gain/loss		(1,600,002)	-	-	(1,600,002)
Inventory consumed		-	16,549	(18,792,678)	(18,776,129)
General expenses		(156,257,450)	1,720,898	18,792,678	(135,743,874)
Surplus for the year		**(75,006,543)**	**(97,345,032)**	**-**	**(172,351,575)**

Cash flow statement

2020

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Sale of goods and services		41,577,061	-	41,577,061
Grants		1,567,774,002	-	1,567,774,002
Interest income		38,708,122	-	38,708,122
Employees costs		(604,401,272)	-	(604,401,272)
Finance costs		(348,044)	-	(348,044)
Suppliers		(548,191,368)	-	(548,191,368)
Purchase of Property, plant and equipment		(560,939,065)	-	(560,939,065)
Other cash items, other chnages, movements in PPE		(1,233,622)	-	(1,233,622)
Finance lease payments		(895,344)	-	(895,344)
Cash and cash equivalents: Net increase		32,751,652	-	32,751,652
Cash and cash equivalents: Beginning		235,171,214	-	235,171,214
Cash and Cash equivalents: end of year		267,922,866	-	267,922,866
		467,896,202	**-**	**467,896,202**
Disclosures				
Irregular expenditure		68,038,786	27,722,700	95,761,486
Commitments		1,445,249,495	(218,826,598)	1,226,422,897
		1,513,288,281	**(191,103,898)**	**1,322,184,383**

40. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter in raising funds to cover future commitments. The municipality manages the liquidity risk through an ongoing review of future commitments and credit facilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. Sales to residents are settled in cash or using major credit cards.

41. Unauthorised expenditure

	2021	2020
Opening balance as previously reported	725,149,957	1,233,809,806
Opening balance as restated	**725,149,957**	**1,233,809,806**
Add: Expenditure identified - current	1,430,908,837	725,149,957
Less: Approved/condoned/authorised by council	(725,149,957)	(1,233,809,806)
Closing balance	**1,430,908,837**	**725,149,957**

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

	2021	2020
Non-cash	1,387,763,363	509,254,577
Cash	43,145,474	215,895,380
	1,430,908,837	**725,149,957**

The unauthorised expenditure for Non Cash came as a result of revenue estimate that was done to address the completeness of revenue.

Analysed as follows: non-cash

	2021	2020
Employee related cost	18,973,410	11,750,622
Finance charges	-	109,516,332
Provision of impairment	1,368,789,950	386,811,702
Acturial Loss	-	1,175,921
	1,387,763,360	**509,254,577**

Figures in Rand	2021	2020

41. Unauthorised expenditure (continued)

Analysed as follows: cash

Bulk purchases	2,582,592	47,481,565
Contracted services	38,743,937	144,411,582
General expenditure	1,818,945	24,000,552
Finance costs	-	1,681
	43,145,474	**215,895,380**

42. Fruitless and wasteful expenditure

Opening balance as previously reported	255,148	255,148
Opening balance as restated	**255,148**	**255,148**
Add: Expenditure identified - current	150,397	348,044
Less: Amounts recoverable - current	(5,827)	-
Less: Amount written off - prior period	(390,801)	(348,044)
Closing balance	**8,917**	**255,148**

43. Irregular expenditure

Opening balance as previously reported	208,341,072	86,782,156
Opening balance as restated	**208,341,072**	**86,782,156**
Add: Irregular Expenditure - prior period	-	140,317,573
Less: Irregular Expenditure - current	83,283,154	68,023,498
Less: Amount written off - current	(151,058,800)	(86,782,155)
Closing balance	**140,565,426**	**208,341,072**

44. Additional disclosure in terms of Municipal Finance Management Act

SALGA

Current year subscription / fee	6,254,030	6,024,280
Amount paid - current year	(6,254,030)	(6,024,280)
	-	**-**

Material losses

Current year movements	457,328,431	323,540,495

Water

Water losses are caused by leakage on transmission and distribution mains, leakage on service connections up to the point of customer meter.

Water losses percentages are 41.5% (2020/21) and 41.5% (2019/20).

Audit fees

Current year subscription / fee	5,155,603	6,096,306
Amount paid - current year	(5,155,603)	(6,096,306)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	7,891,033	6,101,126
Current year subscription / fee	74,845,071	96,189,119
Amount paid - current year	(74,845,071)	(94,399,212)
	7,891,033	**7,891,033**

The balance represents PAYE and UIF deducted from the June 2020 payroll. These amounts were paid during July 2020.

Pension and Medical Aid Deductions

Opening balance	10,605,734	-
Current year subscription / fee	66,220,789	121,429,226
Amount paid - current year	(32,995,048)	(110,823,492)
	43,831,475	**10,605,734**

The balance represents Pension and Medical aid contributions deducted from employees in the June 2021 payroll as well as councillors' contributions to Pension and Medical Aid Funds.These amounts were paid in July 2021.

Deviations from Supply Chain Management Regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been approved by the Accounting Officer and noted by Council.

Incident		
Repairs and maintenance of vehicles and equipment	2,655,941	2,745,980
Advertising and Marketing	676,766	312,059
Staff Training and development	585,967	138,108
Disaster Management	-	1,276,810
IT services	728,609	112,717
Professional Fees	57,428	54,500
Printing Services	45,034	-
Accomodation and Conference	58,179	173,359
	4,807,924	**4,813,533**

Vhembe District Municipality
Appendix E(1)
June 2021

Actual versus Budget for the year ended 30 June 2021

	Current year 2020 Act. Bal. Rand	Forecast # 1 2021 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Sale of tender documents	2,889,246	3,056,000	(166,754)	(5.5)	Not Material
Sale of water	1,286,883,407	340,015,000	946,868,407	278.5	The difference is mainly due to revenue estimates for the 2021 financial year that has not been budgeted for, revenue estimate to an amount of R837 million were recognised.
Rendering of services	3,737	438,000	(434,263)	(99.1)	The amount collected was significantly less than budgeted, revenue from health certificates depends on demand from new business requiring health certificates, less health certificates than anticipated were issued due to slow down in new business activity as a result the current economic climate.
Rental of facilities and equipment	298	-	298	-	The actual income received has not being budgeted as this is additional income that the municipality did not anticipate to receive.
Other Income	545,232	-	545,232	-	The actual income received has not being budgeted as this is additional income that the municipality did not anticipate to receive.
Interest received - investment	29,019,360	46,000,000	(16,980,640)	(36.9)	Municipality has implemented control to ensure timely payments of suppliers and therefore there was not much cash in the accounts to gain interest as it was utilised to ensure that suppliers are paid within 30 days and therefore resulted in less interest earned
Government grants and subsidies	1,881,944,788	1,989,561,996	(107,617,208)	(5.4)	The municipality receives grants transfer and subsidies as per payment schedule by National Treasury. The municipality has received all grants scheduled and the revenue is due to spending on projects under the relevant grants and the remainder of the differences is due to less equitable share received than budgeted.
Licences and permits	171,310	279,000	(107,690)	(38.6)	Collections from licences and permits are less than budgeted, the revenue from licences and permits is depended on demand from customers
	-	-	-	-	
	-	-	-	-	
	-	-	-	-	
	-	-	-	-	
	3,201,457,378	2,379,349,996	822,107,382	34.6	

Expenses

Vhembe District Municipality
Appendix E(1)
June 2021

Actual versus Budget for the year ended 30 June 2021

	Current year 2020 Act. Bal.	Forecast # 1 2021 Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
Employee related cost	(650,721,846)	(631,748,446)	(18,973,400)	3.0	Not material
Remuneration of councillors	(14,423,277)	(16,859,579)	2,436,302	(14.5)	The budget for the remuneration of councillors include possible increase of 4% which was not granted therefore contributing to the underperformance of 17%. The remainder is due to movement in total headcount of the of the councillors which is not reflected in the budget as it cannot reasonably be forecast.
Depreciation and amortisation	(196,236,474)	(202,654,230)	6,417,756	(3.2)	Not material
Bad debts written off	-	(15,304,344)	15,304,344	(100.0)	There were no bad debts written off during the year under review 2019/2020 financial year
Sale of goods/Inventory	(14,587,556)	(16,752,386)	2,164,830	(12.9)	Sale of goods/inventory shows underperformance of 15%. This is related to inventory consumed in the normal process of the municipality's activities, less inventory was consumed than budgeted therefore indicating efficient use of resources by the municipality in carrying out normal business.
Impairments Loss	(1,490,229,120)	(121,439,170)	(1,368,789,950)	,127.1	The significant difference is due to impairment of debtors which resulted from the revenue estimates made in the 2020 financial year.
Finance costs	(141,480)	(448,224)	306,744	(68.4)	Finance charges are less than budgeted due to improvement in the timely payments of creditors by the municipality resulting in less interest charged on overdue invoices.
Bulk purchases	(95,053,206)	(92,470,614)	(2,582,592)	2.8	Not Material
Contracted Services	(297,657,040)	(258,913,104)	(38,743,936)	15.0	Contracted services shows overperformance of 13%. There are invoices for the work done towards the end of 2021 financial year that were not paid and accrued as at 30 June 2021.
Transfers and Subsidies	-	-	-	-	
General Expenses	(156,686,170)	(154,867,225)	(1,818,945)	1.2	Not Material
	(2,915,736,169)	(1,511,457,322)	(1,404,278,847)	92.9	
Gain or loss on disposal of assets and liabilities	(13,189,473)	2,000,000	(15,189,473)	(759.5)	The loss on disposal of assets and liabilities is more than budgeted. Loss on disposal is depended on the nature and condition of the assets disposed, the proceeds recieved on disposal. The assets disposed were aged and reached the end of the useful lifes nd little or no proceeds were received on their write-off.

Vhembe District Municipality
Appendix E(1)
June 2021

Actual versus Budget for the year ended 30 June 2021

Current year 2020 Act. Bal.	Forecast # 1 2021 Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
272,531,736	869,892,674	(597,360,938)	(68.7)	