



ALFRED NZO

DISTRICT MUNICIPALITY

Alfred Nzo District Municipality
Annual Financial Statements
For the year ended 30 June 2022

AUDITOR GENERAL
SOUTH AFRICA

11 JAN 2023

AUDITOR GENERAL
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Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

General Information

Mayoral Committee

Executive Mayor

V Mhilembana
N Mshuqwana (Deputy Executive Mayor)
F Bewu (Acting Speaker)
B Qwayede (Chief Whip)
N Bongwana (MPAC Chairperson)
E Diko
M Mbedla
S Mehlokhulu
S Mnukwa
N Msokana
P Ndabeni
N N Ngoko

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Councillors

N Daniel
A Guqaza
S M Gwayi
N Langasiki
W K Leballo
M S Magadla
P P Magujulwa
N Mantshongo
N Mantangayi
N Mpokolo
N Ncekana
N Ndabeni
M Ndovela
Z C Njomi
L Nomaqhiza
N Nomnganga
S Ntabeni
N Ntshobane
M Qumba
K E Sephuhle
T Sheane
M Smith
B Sobayi
N Sobazile
N Sonyabashe
S Sophaqa
M Tuku
E Voko
N Sigcau (Chief)
D Moshoeshe (Chief)

Accounting Officer

Chief Financial Officer (CFO)

Registered office

Z H Sikhundla

U P Mahlasela

ERF 1400
Ntsizwa Street

Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

General Information

	eMaxesibeni 4735
Business address	ERF 1400 Ntsizwa Street eMaxesibeni 4735
Postal address	Private Bag X511 eMaxesibeni 4735
Bankers	First National Bank of South Africa
Auditors	Auditor General of South Africa Registered Auditors 69 Frere Road Vincent East London 5204
Legal Manager	M Dubula
Municipal website	www.andm.gov.za

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COLD	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
IAS	International Accounting Standards
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)

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Annual Financial Statements for the year ended 30 June 2022

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. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with 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.

The accounting officer acknowledges that he is 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 the accounting officer to meet these responsibilities, he 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.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

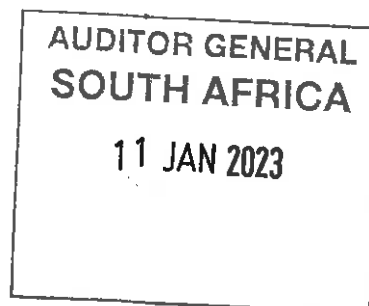
The municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of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

Although he is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's management and the Audit Committee.

The annual financial statements set out on pages 6 to 75, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2022 and were signed on its behalf by:



Z H Sikhundla
Accounting Officer



Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Officers Report

The accounting officer submits his report for the period ended 30 June 2022.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 725,607,812 (2021: surplus R 553,283,035).

2. Going concern

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

3. Subsequent events

On the 31st of August 2022, the Alfred Nzo District Municipality council met and approved the write off of irregular expenditure as shown on the notes to the Annual Financial Statements.

4. Corporate governance

General

management is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, management supports the highest standards of corporate governance and the ongoing development of best practice.

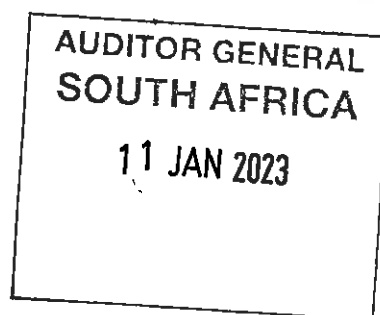
5. Interest in controlled entities

Details of the municipality's investment in controlled entities are set out in note 12.

The annual financial statements set out on pages 6 to 75, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2022 and were signed by:



Z H Sikhundla
Accounting Officer



Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	4	19,665,367	16,952,024
Receivables from non-exchange transactions	5	18,989,338	25,006,874
Receivables from exchange transactions	6	50,755,164	51,116,060
VAT receivable	7	42,145,168	42,578,200
Cash and cash equivalents	8	986,839,445	775,143,517
		1,098,394,480	910,793,675
Non-Current Assets			
Property, plant and equipment	9	5,080,845,911	4,539,144,289
Intangible assets	10	762,912	1,327,208
Heritage assets	11	131,100	131,100
Investments in controlled entities	12	100	100
Investments	14	10,134,587	9,431,087
		5,071,874,610	4,550,033,764
Non-Current Assets		5,071,874,610	4,550,033,764
Current Assets		1,098,394,480	910,793,675
Total Assets		6,170,269,090	5,460,827,439
Liabilities			
Current Liabilities			
Operating lease liability	15	223,529	205,046
Unspent conditional grants and receipts	16	-	88,732,914
Provisions	17	26,513,487	26,337,671
Employee benefit obligation	18	2,002,000	2,291,000
Payables from exchange transactions	19	245,798,184	174,638,138
Payables from non exchange transactions	20	3,006,207	1,671,698
		277,541,387	293,876,467
Non-Current Liabilities			
Employee benefits obligation	18	10,080,000	9,911,000
Non-Current Liabilities		10,080,000	9,911,000
Current Liabilities		277,541,387	293,876,467
Total Liabilities		287,621,387	303,787,467
Assets		6,170,269,090	5,460,827,439
Liabilities		(287,621,387)	(303,787,467)
Net Assets		5,882,647,703	5,157,039,972
Accumulated surplus		5,882,647,703	5,157,039,972
Total Net Assets		5,882,647,703	5,157,039,972

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* See Note 52

Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance for the Period ended 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	26,422,862	26,722,055
Rental of facilities and equipment	23	1,761	2,775
Agency services	24	263,388	292,091
Other income	25	4,274,783	1,038,462
Interest received	26	43,411,288	34,808,322
Actuarial gains		1,657,993	255,716
Total revenue from exchange transactions		76,032,075	63,119,421
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	27	1,354,327,106	1,188,755,750
		76,032,075	63,119,421
		1,354,327,106	1,188,755,750
Total revenue	21	1,430,359,181	1,251,875,171
Expenditure			
Employee related costs	28	(271,618,377)	(275,660,182)
Remuneration of councillors	29	(10,499,130)	(10,823,698)
Litigation expenditure	30	(7,268,253)	(4,338,091)
Depreciation	31	(102,768,522)	(95,782,290)
Amortisation	32	(492,017)	(526,608)
Finance costs	33	(406,049)	(3,617)
Lease rentals on operating lease	34	(1,502,041)	(996,774)
Debt Impairment	35	(6,489,668)	(50,872)
Bulk purchases	36	(10,265,495)	(9,638,772)
Contracted services	37	(150,960,975)	(175,754,143)
Transfers and subsidies	38	(18,010,818)	(17,775,727)
Loss on disposal		(641,947)	(1,149,510)
General expenses	39	(123,828,077)	(106,191,852)
Total expenditure		(704,751,369)	(698,592,136)
Total revenue		1,430,359,181	1,251,875,171
Total expenditure		(704,751,369)	(698,592,136)
Operating surplus/deficit		-	-
Surplus before taxation		725,607,812	553,283,035
Taxation		-	-
Surplus for the year		725,607,812	553,283,035

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* See Note 52

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Statement of Changes in Net Assets for the Period Ended 30 June 2022

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2020	4,632,114,468	4,632,114,468
Changes in net assets		
Prior year errors adjustments	(28,357,531)	(28,357,531)
Net income (losses) recognised directly in net assets	(28,357,531)	(28,357,531)
Surplus for the year	553,283,035	553,283,035
Total recognised income and expenses for the year	524,925,504	524,925,504
Total changes	524,925,504	524,925,504
Restated* Balance at 01 July 2021	5,157,039,891	5,157,039,891
Changes in net assets		
Surplus for the year	725,607,812	725,607,812
Total changes	725,607,812	725,607,812
Balance at 30 June 2022	5,882,647,703	5,882,647,703

Note 52

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* See Note 52

Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement for the year ended 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Service charges		24,912,481	29,313,029
Other receipts		4,539,932	1,333,328
Interest income		32,954,204	24,322,233
Government grants and subsidies		1,265,594,192	1,201,178,278
		1,328,000,809	1,256,146,868
Payments			
Employee costs		(269,792,758)	(272,515,579)
Suppliers		(212,568,290)	(329,332,331)
Finance costs		(406,049)	(3,617)
Councillors		(10,499,130)	(10,823,695)
Grants and subsidies		(18,010,819)	(17,775,731)
		(511,277,046)	(630,450,953)
Total receipts		1,328,000,809	1,256,146,868
Total payments		(511,277,046)	(630,450,953)
Net cash flows from operating activities	42	816,723,763	625,695,915
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(625,728,830)	(428,891,778)
Purchase of other intangible assets	10	-	(693,859)
Staff loan repayment		12,000	12,000
Proceeds from asset disposal		688,995	1,093,319
Net cash flows from investing activities		(625,027,835)	(428,480,318)
Cash flows from financing activities			
Loan repayment		-	(6,926)
Net increase/(decrease) in cash and cash equivalents		191,695,928	197,208,671
Cash and cash equivalents at the beginning of the year		775,143,517	577,934,846
Cash and cash equivalents at the end of the year	8	966,839,445	775,143,517

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* See Note 52

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Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	38,530,718	(497,083)	38,033,635	28,422,862	(11,610,773)	a)
Rental of facilities and equipment	-	2,200	2,200	1,761	(439)	b)
Agency services	-	-	-	263,388	263,388	c)
Reserves	77,602,435	22,397,585	100,000,000	-	(100,000,000)	d)
Other income	837,849	511,045	1,348,894	4,274,783	2,925,889	e)
Interest received	30,108,032	(1,637,436)	28,470,596	43,411,288	14,940,692	f)
Total revenue from exchange transactions	147,079,034	20,776,291	167,855,325	74,374,082	(93,481,243)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,206,575,000	184,309,331	1,390,884,331	1,354,327,106	(36,557,225)	(r)
'Total revenue from exchange transactions'	147,079,034	20,776,291	167,855,325	74,374,082	(93,481,243)	
'Total revenue from non-exchange transactions'	1,206,575,000	184,309,331	1,390,884,331	1,354,327,106	(36,557,225)	
Total revenue	1,353,654,034	205,085,622	1,558,739,656	1,428,701,188	(130,038,468)	
Expenditure						
Employee related costs	(301,658,900)	5,672,351	(295,986,549)	(271,618,377)	24,368,172	h)
Remuneration of councillors	(12,396,399)	(203,189)	(12,599,588)	(10,499,130)	2,100,458	i)
Depreciation and amortisation	(100,000,000)	(4,000,000)	(104,000,000)	(103,260,539)	739,461	k)
Finance costs	-	(500,000)	(500,000)	(406,049)	93,951	l)
Debt Impairment	(25,000,000)	9,000,000	(16,000,000)	(6,489,668)	9,510,332	j)
Inventory consumed	(32,955,000)	(1,404,000)	(34,359,000)	(26,751,037)	7,607,963	m)
Contracted Services	(202,137,000)	11,303,000	(190,834,000)	(150,960,975)	39,873,025	n)
Transfers and subsidies	(21,150,000)	348,481	(20,801,519)	(18,010,818)	2,790,701	o)
General expenses	(89,754,000)	(28,042,000)	(117,796,000)	(116,112,829)	1,683,171	
Total expenditure	(785,051,299)	(7,828,367)	(792,876,656)	(704,109,422)	88,767,234	
	1,353,654,034	205,085,622	1,558,739,656	1,428,701,188	(130,038,468)	
	(785,051,299)	23,001,375	(762,049,924)	(704,109,422)	57,940,502	
Operating surplus	568,602,735	228,086,997	796,689,732	724,591,766	(72,097,966)	
Actuarial gains/losses						
Actuarial gains/losses	-	-	-	1,657,993	1,657,993	g)
Loss on non-current assets held for sale or disposal groups						
Loss on non-current assets held for sale or disposal groups	-	-	-	(641,947)	(641,947)	p)
	-	-	-	1,016,046	1,016,046	
	568,602,735	228,086,997	796,689,732	724,591,766	(72,097,966)	
	-	-	-	1,016,046	1,016,046	
Surplus	568,602,735	228,086,997	796,689,732	725,607,812	(71,081,920)	
Capex	584,360,200	197,689,724	782,049,924	625,728,829	(136,321,095)	q)
Surplus	568,602,735	197,689,724	766,292,459	725,607,812	(40,684,647)	
Capex	564,360,200	197,689,724	762,049,924	625,728,829	(136,321,095)	

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Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	4,242,535	(429,459)	3,813,076	99,878,983	96,065,907	

Reconciliation

- a) Service charges - During the year, the Municipality replaced some of the non- functioning meters, this was expected to yield positive results and realise more revenue but due to problems with areas where there were infrastructure breakdown, there was no water and hence less revenue than anticipated.
- b) Rental of facilities and Equipment- These are funds charged for hiring of the conference centre.
- c) Agency Services- Is commission charged by the Municipality on gamishee orders and other employee deductions done on behalf of third parties.
- d) Reserves, this is a non cash item that covers the budgeted figures depreciation for the year and as such it has nil effect as it is balanced out by another non- cash item , depreciation.
- e) Other income- Includes, a major contributor, the sale of tender documents , fees charged for property clearances, hiring out of facilities and other sundry charges. During the year some retentions were forfeited by some service providers and resulted in increase in other income than anticipated..
- f) Interest earned- More Investments were made as there was a delay in procurement due to the announcement made by National Treasury as a result of the court case on Preferential Procurement, more funds were then invested.
- g) Gains- These were actuarial gains which were not budgeted for from the assessment done by the actuaries on long term employee benefits.
- h) Employee Related Costs- The budgeted figure was based on an estimated increase of 6.5% but the council approved 3.5% increase. Further, contracts that expired during the period, especially for Managers, were not renewed. The salary increments for Managers were only paid after year end.
- i) Remuneration of councilors - The budgeted figure was based on an estimated increase of 6.5% however, the minister of COGTA approved 3% increase. There was also a transition period where there was no council. The salary increment for Councilors was approved and paid after year end.
- j) Debt impairment- The underspending is due to increase in the amount of old debt that was not paid at year end.
- k) Depreciation and amortisation - The budgeted figure was based on estimate, based on the projects expected to be completed and actual expenditure was not far from the budgeted figure.
- l) Finance costs- The amount is reported as fruitless expenditure, please refer to the note for fruitless expenditure
- m) Inventory consumed- Covers costs for stationery, fuel, and oil and other stock items consumed during the year. There was a period where there was no procurement, this then made the Municipality to purchase most stock during the last quarter of the financial period. VAT is also not included in the actual expenditure.
- n) Contracted services- This includes repairs and maintenance costs. There was a period where there was no procurement in the last period this then resulted into underspending. VAT is not included in the actual expenditure reported.
- o) Transfers and Subsidies- The actual expenditure reported excludes Value Added Tax for transfers made and it appears as if there is less expenditure whereas it is not the case.
- p) Loss on disposal- This is loss incurred in the disposal of assets which was not budgeted for. This is due mainly to Municipal vehicles that were involved in accidents and had to be written off.
- q) Capital Expenditure - During the financial year, National Treasury halted procurement for sometime, this then contributed to underspending in expenditure. The expenditure reported also excludes VAT.
- r) Government grants and subsidies- The variance is due to RBIG grant, which is a schedule 6B grant. The municipality only claims after the condition has been met.

Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

Figures in Rand	Note(s)	2022	2021
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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 Rands.

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 Rands, 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 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

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Annual Financial Statements for the year ended 30 June 2022

1.4 Significant judgements and sources of estimation uncertainty

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

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

1.5 Property, plant and equipment

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

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

- it is probable that future economic benefits or service potential associated with the item will flow to the 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, its 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 are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	10-40

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Accounting Policies**1.5 Property, plant and equipment (continued)**

Plant and machinery	Straight-line	2-20
Furniture and fixtures	Straight-line	2-20
Motor vehicles	Straight-line	4-10
Office equipment	Straight-line	2-20
Infrastructure - Roads	Straight-line	5-15
Infrastructure- Sanitation	Straight-line	2-85
Infrastructure- Water	Straight-line	2-100
Bins and Containers	Straight-line	5-10
Computer Equipment	Straight-line	2-10
Emergency Equipment	Straight-line	2-15
Park Homes	Straight-line	20-40
Specialised Vehicles	Straight-line	5-15
Land	Straight-line	Unlimited

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

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

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

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

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

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no 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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 37).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.6 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.

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.

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Accounting Policies**1.6 Intangible assets (continued)**

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.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software	Straight-line	2-5

Intangible assets are derecognised:

- on disposal including disposal through a non-exchange transaction; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

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1.7 Heritage assets (continued)

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

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Accounting Policies

1.7 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, 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 heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 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.

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:

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Accounting Policies**1.8 Financial Instruments (continued)**

- 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.

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.

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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.

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Accounting Policies**1.8 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
Unlisted Investments	Financial asset measured at amortised cost
Investments in Fixed Deposits	Financial asset measured at amortised cost
Long Term Receivables	Financial asset measured at amortised cost
Receivables From Exchange Transactions	Financial asset measured at amortised cost
Cash and Cash Equivalents- Call Deposits	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
Long Term Liabilities	Financial liability measured at amortised cost
Payables	Financial liability measured at amortised cost

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Accounting Policies**1.8 Financial Instruments (continued)****Initial Recognition**

The entity shall recognise financial asset or 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 concessional loan is in fact a loan. On initial recognition, the entity analyses a concessional loan into its component parts and accounts for each component separately.

The entity accounts for that part of a concessional 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.

Subsequent measurement of the 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, 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 unrecognised or impaired or through the amortisation process.

Impairment and uncollectability of financial assets

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Accounting Policies**1.8 Financial Instruments (continued)**

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of 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 assets carrying amount and the present value of the estimated future cashflows (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 the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition**Financial assets**

The entity derecognises financial assets using trade date accounting

The entity derecognises 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 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 practical ability to sell the asset in its entirety to an unrelated 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 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 fair values at that date. Any difference between the consideration received and the amounts recognised in the 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 recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not 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 transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognises 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 a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership

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Accounting Policies

1.8 Financial Instruments (continued)

of the transferred asset, the entity continues 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.

A 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.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguishing 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 Transaction (Taxes and Transfers)

Presentation

Interest relating to a financial instrument or component that is a financial liability is derecognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax (where applicable) relating to distributions to holders of residual interests and to transaction costs incurred on a residual interests are accounted for in accordance with the International Accounting Standards on Income Taxes.

A financial asset and a financial liability are only offset and net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 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.

Operating leases - lessor

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

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1.9 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 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.

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 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.

Water Inventory

Water is regarded as inventory when the Municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the Municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the Municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

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).

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

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.

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.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

1.12 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.

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Accounting Policies**1.12 Employee benefits (continued)**

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.

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 recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

The entity recognises the expected cost of bonus, 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.

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1.12 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Insured benefits

Where the entity pays insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

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 recognises 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 recognises 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.

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Accounting Policies**1.12 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 recognises 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 recognises 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 measures 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 determines 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.

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1.12 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-measures 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.

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Accounting Policies**1.12 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.

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1.12 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.

1.13 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 (deficit).

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.

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1.13 Impairment of non-cash-generating assets (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 an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; 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 44.

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, a 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.

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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1.14 Commitments (continued)

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

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

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.

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.

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

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 services performed to date as a percentage of total services to be performed.

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Accounting Policies**1.15 Revenue from exchange transactions (continued)****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 using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

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 a 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 arises 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.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a 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.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

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.

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1.16 Revenue from non-exchange transactions (continued)

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.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

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

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

Unauthorised expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.18 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.

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Accounting Policies**1.19 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, 1988 (Act No.20 of 1988); 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"

In this context 'expenditure' refers to any use of municipal funds that is in contravention of the following legislation:

- >Municipal Finance Management Act, Act 56 of 2003, and its regulations
- >Municipal Systems Act, Act 32 of 2000, and its regulations
- >Public Office Bearers Act, Act 20 of 1998, and its regulations; and
- >The municipality's supply chain management policy, and any by-laws giving effect to that policy.

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

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

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Segment Information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

AUDITOR GENERAL
SOUTH AFRICA

1.1 JAN 2023

1.21 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 those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

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.

Related parties and related party transactions

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.22 Events after reporting date

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

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

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

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

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

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Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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2022

2021

2. Segment information**General information****Aggregated segments****SEGMENT REPORTING**

For management purposes, the municipality is organised and operates in three key functional segments (or business areas). To this end, management monitors the operating results of these business units for the purpose of making decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these business areas are allocated at a transactional level. Costs relating to the governance and administration of the municipality are not allocated to these business areas.

The three key business areas comprise of:

Community and public safety which includes community and social services, sport and recreation, public safety, health and housing services;

Economic and environmental services which includes planning and development, road transport and environmental protection services;

Trading services which includes energy sources, water management and waste water management

The grouping of these segments is consistent with the functional classification of government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered (if any).

Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

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2. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

	Community and Public Safety	Economic Environmental Affairs	Trading Services	Other Segments	Total
Revenue					
Service Charges	-	-	26,422,862	-	26,422,862
Rental of facilities	-	-	-	1,761	1,761
Agency fees	-	-	-	263,388	263,388
Other income	40,661	-	41,302	4,192,820	4,274,783
Actuarial gains	-	-	-	1,657,993	1,657,993
Government grants	-	12,097,831	711,206,085	631,023,189	1,354,327,105
Total segment revenue	40,661	12,097,831	737,670,249	637,139,151	1,386,947,892
Interest revenue					43,411,288
Entity's revenue					1,430,359,180
Expenditure					
Employee costs	33,332,265	8,745,401	78,169,851	151,370,860	271,618,377
Remuneration of councillors	-	-	-	10,499,130	10,499,130
Litigation expenditure	-	-	-	7,268,253	7,268,253
Depreciation	1,804,354	-	91,482,956	9,481,212	102,768,522
Amortisation	-	-	-	492,017	492,017
Lease rentals	19,750	-	-	1,482,292	1,502,042
Debt impairment	-	-	-	6,489,668	6,489,668
Bulk purchases	-	-	10,265,495	-	10,265,495
Contracted services	299,642	28,008,472	66,493,296	54,161,565	150,960,975
Transfers and subaides	-	18,010,818	-	-	18,010,818
Loss on Disposal	-	-	-	641,947	641,947
General expenses	8,753,942	10,004,505	12,505,631	92,563,999	123,828,077
Interest expense	-	-	-	406,049	406,049
Total segment expenditure	44,209,953	64,767,196	260,917,229	334,856,992	704,751,370

Alfred Nzo District Municipality
Annual Financial Statements for the year ended 30 June 2022

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	Community and Public Safety	Economic Environmental Affairs	Trading Services	Other Segments	Total
2. Segment information (continued)					
Total segmental surplus/(deficit)					682,196,522
Total revenue reconciling items					43,411,288
Assets					
Segment assets	-	-	- 1,707,264,558	3,837,275,703	5,544,540,261
Additions to non current assets	-	-	620,003,144	5,725,685	625,728,829
Total segment assets	-	-	- 2,327,267,702	3,843,001,388	6,170,269,090
Total assets as per Statement of financial Position					6,170,269,090
Liabilities					
Segment liabilities	-	-	- (176,709,612)	(110,911,775)	(287,621,387)
Total liabilities as per Statement of financial Position					(287,621,387)
Cash flows from operating expenses					
Cash from investing activities				816,723,763	816,723,763
				(625,027,835)	(625,027,835)
				191,695,928	191,695,928

2021

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Community
and Public
Safety

Economic
Environmental
Affairs

Trading
Services

Other
Segments

Total

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2. Segment information (continued)			
Revenue			
Service charges	-	26,722,055	26,722,055
Rental of facilities and equipment	-	-	2,775
Agency services	-	-	292,091
Other income	52,269	98,108	1,038,462
Interest revenue	-	-	34,808,322
Actuarial gains	-	-	255,716
Government grants and subsidies	-	11,060,000	685,218,989
Total segment revenue	52,269	519,297,022	1,251,875,171
Entity's revenue			1,251,875,171

Expenditure					
Salaries and wages	30,249,970	7,091,553	101,142,776	137,075,883	275,560,182
Remuneration of councillors	-	-	-	10,823,698	10,823,698
Litigation expenditure	-	-	-	4,338,091	4,338,091
Depreciation	1,784,945	234,545	83,142,025	10,620,775	95,782,290
Amortisation	-	-	-	526,608	526,608
Finance costs	-	-	-	3,617	3,617
Lease rentals on operating lease	18,060	-	-	978,714	996,774
Debt impairment	-	-	-	50,872	50,872
Bulk purchases	-	-	\$,638,772	-	9,638,772
Transfers and subsidies	-	-	-	17,775,727	17,775,727
Loss on disposal	-	-	-	1,149,510	1,149,510
General expenses	7,150,131	8,175,578	10,214,472	80,661,671	106,191,852
Contracted services	657,418	31,341,220	75,848,835	68,106,670	175,754,143
Total segment expenditure	39,860,524	46,842,896	279,786,880	332,101,836	698,592,136
Total segmental surplus/(deficit)					553,283,035

Assets				
Segment assets	131,100	- 4,073,883,012	957,921,548	5,031,935,660
Additions	-	- 420,715,581	8,176,198	428,891,779
Total segment assets	131,100	- 4,494,598,593	966,097,746	5,460,827,439
Total assets as per Statement of financial Position				5,460,827,439

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	Community and Public Safety	Economic Environmental Affairs	Trading Services	Other Segments	Total
2. Segment information (continued)					
Liabilities					
Segment liabilities	-	-	(88,732,914)	(215,054,553)	(303,787,467)
Total liabilities as per Statement of financial Position					(303,787,467)
Cashflow from operating activities				Other Segments	Total
Cashflows from Investing activities				625,695,915	625,695,915
Cashflow from financing activities				(428,480,318)	(428,480,318)
				(6,926)	(6,926)
				197,208,671	197,208,671

3. New standards and Interpretations

3.1 Standards and Interpretations Issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2023	Unlikely there will be a material impact
• GRAP 25 (as revised 2021): Employee Benefits	01 April 2023	Unlikely there will be a material impact
• IGRAP 7 (as revised 2021): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2023	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2023	Unlikely there will be a material impact

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Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

• GRAP 104 (amended): Financial Instruments	01 April 2025
• IGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023

Unlikely there will be a material impact
Unlikely there will be a material impact
Unlikely there will be a material impact
Unlikely there will be a material impact

4. Inventories

Consumable stores	9,969,307	6,937,990
Water	9,696,060	10,014,034
	19,665,367	16,952,024

Water losses (in cubic meters)

Opening balance (Volumes)	197,692	209,042
Produced (Volumes)	1,893,811	1,904,927
Less Water Sales (Volumes)	(1,344,197)	(1,311,400)
	36	
Less Water Stock Closing Balance (Volumes)	(197,561)	(197,892)
Water Losses	549,745	804,877
Cost of producing one cubic meter	49	51
Water loss in Rands	26,937,506	30,848,727
Water loss as a % of produced	29	32

The water losses are a result of leakages on the distribution system, evaporation as well as illegal connections.

5. Receivables from non-exchange transactions

Staff Debtors	243,217	470,186
Other Debtors	18,746,121	24,536,688
	18,989,338	25,006,874

The other debtors are made up of the following

Eskom Deposits	7,704,883	7,359,463
Department of water affairs	9,903,815	17,176,685
Prepaid suppliers	268,294	-
Insurance claim	688,995	-
Legal costs recovered	180,054	-
	18,746,121	24,536,148

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Alfred Nzo District Municipality

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	2022	2021
6. Receivables from exchange transactions		
Gross balances		
Water	128,856,756	124,960,919
Sewerage	21,515,365	19,180,996
Other	1,392,296	1,480,730
	151,764,417	145,622,645
Less: Allowance for impairment		
Water	(81,906,277)	(77,468,745)
Sewerage	(18,339,053)	(16,195,531)
Other	(763,923)	(843,309)
	(101,009,253)	(94,507,585)
Net balance		
Water	46,950,479	47,492,174
Sewerage	3,176,312	2,985,465
Other	628,373	637,421
	50,755,164	51,115,060
Water		
Current (0 -30 days)	2,924,298	3,202,522
31 - 60 days	2,138,955	2,534,860
61 - 90 days	2,061,672	2,644,022
91 - 120 days	1,792,965	1,876,836
>120 days	119,938,866	114,602,680
	128,856,756	124,960,920
Sewerage		
Current (0 -30 days)	424,565	466,610
31 - 60 days	334,820	321,249
61 - 90 days	324,779	317,354
91 - 120 days	320,706	311,220
>120 days	20,110,495	17,764,564
	21,515,365	19,180,997
Other (specify)		
> 120 days	1,392,297	1,480,730

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Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

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2022

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6. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers

Current (0 -30 days)	974,133	1,065,706
31 - 60 days	878,295	808,709
61 - 90 days	881,576	894,073
91 - 120 days	823,775	798,608
>120 days	85,845,016	81,455,380
	89,402,795	85,020,476
Less: Allowance for impairment	(78,942,406)	(73,908,752)
	10,460,389	11,111,724

Industrial/ commercial

Current (0 -30 days)	758,963	962,137
31 - 60 days	477,661	685,382
61 - 90 days	483,898	762,366
91 - 120 days	446,347	630,142
>120 days	30,977,804	30,512,890
	33,144,673	33,552,917
Less: Allowance for impairment	(7,746,715)	(8,115,910)
	25,397,958	25,437,007

Churches

Current (0-30 days)	24,145	22,301
31- 60 days	15,135	21,062
61-90 days	15,792	22,780
91- 120 days	15,847	18,793
>120 days	2,252,961	2,066,680
Subtotal	2,323,880	2,150,596
Less Allowance for impairment	(2,147,552)	(2,025,041)
	176,328	125,555

National and provincial government

Current (0 -30 days)	1,591,622	1,618,989
31 - 60 days	1,102,684	1,342,956
61 - 90 days	1,005,186	1,282,156
91 - 120 days	827,701	840,514
> 120 days	20,978,226	18,581,197
	25,505,419	23,665,812
Less: Allowance for impairment	(11,408,656)	(9,614,572)
	14,096,763	14,051,240

Other Sundry

>120 days	1,387,650	1,232,845
Subtotal	1,387,650	1,232,845
Less: Allowance for impairment	(763,922)	(843,309)
	623,728	389,536

Total

Current (0 -30 days)	3,348,863	3,669,132
31 - 60 days	2,473,775	2,856,108
61 - 90 days	2,386,451	2,961,375

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Alfred Nzo District Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
6. Receivables from exchange transactions (continued)		
91 - 120 days	2,113,671	2,288,057
>120 days	141,441,657	133,847,972
	151,764,417	145,622,844
	(101,009,252)	(94,507,584)
Less: Allowance for impairment	50,755,165	51,115,060
Reconciliation of allowance for impairment		
Balance at beginning of the year	(94,507,585)	(94,444,711)
Contributions to allowance	(6,501,668)	(62,874)
	(101,009,253)	(94,507,585)

7. VAT receivable

VAT	42,145,166	42,576,200
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The municipality is on cash basis for VAT

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Call Deposits	960,163,858	691,612,278
Bank balances	6,675,587	83,531,239
	966,839,445	775,143,517

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
Main Account- Current Account #62024932974	12,976,230	106,380,422	21,280,286	6,675,587	83,531,239	2,829,436
ANDM Main Call Account #624774364553	222,870,871	328,234,743	176,228,187	222,870,871	328,234,743	176,228,188
DBSA- Loan Account # 6245228732	119,977,518	79,674,807	90,301,067	119,977,518	79,674,807	90,301,069
Rural Road Asset Management #62454657720	4,716,220	2,364,712	3,956	4,716,220	2,364,712	3,956
Regional Bulk Account # 62027459371	1,811,937	6,547,358	16,276	1,811,937	6,547,358	16,276
EPWP Account #62058637110	17,890	411,757	9,833	17,890	411,757	9,833
FMG Account # 62033034597	3,315	715,180	3,715	3,315	715,180	3,715
WSIG Account # 62033034448	40,367,988	3,768,668	56,600	40,367,988	3,768,668	56,600
Energy & Efficiency Account # 62027455808	5,281	1,780,382	31,184	5,281	1,780,382	31,184
Salaries and Allowances Account #620255448855	170,958,541	185,500,697	12,670,980	170,958,541	185,500,697	12,670,980
ISDG Account #62093560136	11,801	2,385,856	12,427	11,801	2,385,856	12,427
MIG Account #62065368328	66,636,488	68,375,579	333,509	66,636,488	68,375,579	333,509
Nedbank	27,846,573	11,852,540	-	27,846,573	11,852,540	-
Standard Bank	101,643,836	-	-	101,643,836	-	-
Standard Bank 2	203,287,671	-	-	203,287,671	-	-
Petty cash	-	-	-	7,928	-	-
Total	973,132,160	797,992,701	300,948,020	966,839,445	775,143,518	282,497,173

Alfred Nzo District Municipality
Annual Financial Statements for the year ended 30 June 2022
Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	465,000	-	465,000	465,000	-	465,000
Buildings	58,491,057	(29,260,982)	29,230,075	58,491,057	(27,456,628)	31,034,429
Infrastructure	2,863,191,294	(708,411,022)	2,159,780,272	2,586,075,690	(616,928,065)	1,969,147,625
Other property, plant and equipment	98,441,067	(57,462,880)	40,978,187	98,459,025	(52,870,870)	45,588,155
Assets Under Construction Water	2,673,154,321	-	2,673,154,321	2,210,354,744	-	2,210,354,744
Assets Under Construction Sanitation	142,673,611	-	142,673,611	276,242,430	-	276,242,430
Assets Under Construction Buildings	4,157,591	-	4,157,591	3,594,920	-	3,594,920
Silos	8,660,854	-	8,660,854	2,716,966	-	2,716,966
Specialised Vehicles	1,746,000	-	1,746,000	-	-	-
Total	5,855,980,795	(795,134,884)	5,060,845,911	5,236,399,832	(697,255,563)	4,539,144,269

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Notes to the Annual Financial Statements

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Write offs	Transfers	Depreciation	Total
Land	465,000	-	-	-	-	465,000
Buildings	31,034,429	-	-	-	(1,804,354)	29,230,075
Infrastructure	1,969,147,625	32,552,142	-	249,563,472	(91,482,967)	2,159,780,272
Other property, plant and equipment	45,588,155	6,129,895	(1,258,662)	-	(9,481,201)	40,978,187
Assets Under Construction Water	2,210,354,744	548,879,376	-	(86,079,799)	-	2,673,154,321
Assets Under Construction Sanitation	276,242,430	29,914,854	-	(163,483,673)	-	142,673,611
Assets Under Construction Buildings	3,594,920	562,672	-	-	-	4,157,592
Silos	2,716,964	5,943,890	-	-	-	8,660,854
Specialised Vehicle	-	1,746,000	-	-	-	1,746,000
	4,539,144,267	625,728,829	(1,258,662)	-	(102,768,522)	5,060,845,912

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Write offs	Reclassification	Transfers	Other changes, movements	Depreciation	Total
Land	465,000	-	-	-	-	-	-	465,000
Buildings	30,216,788	188,595	-	-	2,413,991	-	(1,784,945)	31,034,429
Infrastructure	1,813,557,568	29,257,504	-	-	210,033,038	-	(83,700,485)	1,969,147,625
Other property, plant and equipment	49,941,794	7,987,601	(2,075,577)	-	-	31,199	(10,296,882)	45,588,155
Assets Under Construction- Water	2,150,774,498	352,690,268	-	(91,013,118)	(202,096,904)	-	-	2,210,354,744
Assets Under Construction - Sanitation	190,232,240	37,868,169	-	56,078,156	(7,936,135)	-	-	276,242,430
Assets Under Construction Buildings	5,109,268	899,642	-	-	(2,413,990)	-	-	3,594,920
Silos	-	-	-	2,716,984	-	-	-	2,716,984
	4,240,287,158	428,891,779	(2,075,577)	(32,217,998)	-	31,199	(95,782,292)	4,539,144,267

Pledged as security

No property plant and equipment have been pledged as security.

Details of properties

A register containing the information required by section 63 of the Municipal Finance Management Act, (Act 56 of 2003) is available for inspection at the registered office of the entity.

Repairs and Maintenance

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9. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment is included in Statement of Financial Performance, under Contracted services:

2022

R47 761 257

2021

R 76 689 271

Slow moving Projects.

- 1) Some of the feasibility studies done, the construction has not yet started due to budget constraints and high commitments.
- 2) The construction is slow on the following projects due to a number of reasons.

- i) Ntibane Water
- ii) Fobane Water
- iii) Kwabhaca Water

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10. Intangible assets

	2022		2021			
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4,763,832	(4,000,920)	762,912	5,819,875	(4,492,667)	1,327,208

Reconciliation of intangible assets - 2022

	Opening balance	Write offs	Amortisation	Total
Computer software	1,327,208	(72,279)	(492,017)	762,912

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	1,327,208	693,859	(167,251)	(526,608)	1,327,208

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11. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	131,100	-	131,100	131,100	-	131,100
Reconciliation of heritage assets 2022						
				Opening balance		Total
Art Collections, antiquities and exhibits				131,100		131,100
Reconciliation of heritage assets 2021						
				Opening balance		Total
Art Collections, antiquities and exhibits				131,100		131,100

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12. Interests in other entities**Investments in controlled entities**

Name	% ownership interest 2022	% ownership interest 2021	Carrying amount 2022	Carrying amount 2021
Alfred Nzo Development Agency	100.00 %	100.00 %	100	100
			100	100
			100	100

13. Staff loans

Staff Loans	1,052,861	1,064,861
	1,052,861	1,064,861
Allowance for Doubtful debts	(1,052,861)	(1,064,861)
	-	-

The municipality assisted some employees to buy motor vehicles through provision of car loans. However, some of them have long left the municipality and some have passed on. This makes the recoverability of the amounts in question doubtful hence the municipality decided to fully provide for the loans.

These loans were granted in 2002. The municipality does not offer loans to staff anymore.

14. Investments

Designated at amortised cost		
Nedbank Long term investment	10,134,587	9,431,087
	10,134,587	9,431,087
	-	-
Total other financial assets	10,134,587	9,431,087

Account	Cashbook 2022	Cashbook 2021	Bank Statement 2022	Bank Statement 2021
Nedbank Account	10,134,587	9,431,087	10,134,587	9,431,087

The investment is a fixed deposit that matures on 31 March 2025. The investment has a fixed interest rate of 14.07%.

15. Operating lease asset (accrual)

Current liabilities	(223,529)	(205,046)
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16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Expanded Public Works Programme	(1)	(1)
Finance Management Grant	(1)	(1)
Municipal Infrastructure Grant	(1)	88,732,912
Infrastructure Skills Development Grant	3	3
Regional Bulk Infrastructure Grant	-	1
	-	88,732,914

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited;

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 27 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investments until utilised.

17. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Additions	Total
Litigation	1,200,000	2,703,381	3,903,381
Leave Provision	25,137,671	(2,527,565)	22,610,106
	26,337,671	175,816	26,513,487

Reconciliation of provisions - 2021

	Opening Balance	Additions	Total
Litigation	1,200,000	-	1,200,000
Leave Provision	23,893,933	1,243,738	25,137,671
	25,093,933	1,243,738	26,337,671

Litigation Provision

On the 26th of June 2019, the High Court of South Africa, Mthatha, delivered a judgement against the municipality on an old case between the municipality and Ms Z Mgwebi. The two parties are still discussing. The increase is due to the revision of the estimated amount to be paid.

Leave Provision

Staff leave accrue to staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

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18. Employee benefits obligation**Long Service Awards**

Current Portion	2,002,000	2,291,000
Non Current Portion	10,080,000	9,911,000
	12,082,000	12,202,000

Long Service Awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a long-service award is payable after five years of continuous service and every five years thereafter to employees. The provision is an estimate of the long service based on historical staff turnover. No other long service benefits are provided to employees. These provisions are made to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2022 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At end of the year 495, (2021: 494) employees were eligible for Long Service Awards.

The principal assumptions used for the purpose of the actuarial valuations were

Discount rate %	11	9
Cost Inflation %	7	6
Net Effective Discount rate	4	3
Expected Retirement Age - Females	62	62
Expected Retirement Age- Males	62	62

Movements in the present value of the Defined Obligation were as follows:

Balance at the beginning of the year	12,202,000	10,899,000
Current Service Cost	1,507,000	1,402,000
Interest Cost	1,028,000	739,000
Benefit paid	(997,007)	(582,284)
Actuarial gain	(1,657,993)	(255,716)
Present Value of Fund at the end of the Year	12,082,000	12,202,000

The amounts recognised in the Statement of Financial Performance are as follows

Current Service Cost	1,507,000	1,402,000
Interest Cost	1,028,000	739,000
Actuarial (gain) / loss	(1,657,993)	(255,716)
	877,007	1,885,284

The history of the adjustments is as follows

	2022	2021	2020	2019
Defined Value of Defined Value Obligation	12,082,000	12,202,000	10,899,000	9,587,888

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19. Payables from exchange transactions

Trade payables	19,841,978	24,964,262
Accruals	144,326,551	83,449,119
Accrued bonus	5,661,460	5,474,569
Retentions	73,482,293	60,545,102
Third party payments	905,744	115,952
Other creditors	9,296	7,853
Staff creditors	90	19,292
Unpaid salaries	1,568,752	61,989
	245,796,164	174,638,138

The accruals and trade payables are both creditors but the distinction is that accruals are invoices that were received before year end. Trade payables are creditors that were not paid at year end.

20. Payables From Non- Exchange Transactions

These are payments made by customers in advance for consumption.

Advance payments by customers	3,006,207	1,671,698
-------------------------------	-----------	-----------

21. Revenue

Service charges	26,422,862	26,722,055
Rental of facilities and equipment	1,761	2,775
Agency services	263,388	292,091
Other income	4,274,783	1,038,462
Interest received - investment	43,411,288	34,808,322
Government grants & subsidies	1,354,327,106	1,188,755,750
	1,428,701,188	1,251,619,455

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

Service charges	26,422,862	26,722,055
Rental of facilities and equipment	1,761	2,775
Agency services	263,388	292,091
Other income	4,274,783	1,038,462
Interest received - investment	43,411,288	34,808,322
	74,374,082	62,863,705

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

Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,354,327,106	1,188,755,750

22. Service charges

Sale of water	22,893,232	22,464,721
Sewerage and sanitation charges	3,529,630	4,257,334
	26,422,862	26,722,055

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23. Rental of facilities and equipment

Premises		
Premises	1,761	2,775
Premises	1,761	2,775
	-	-
	1,761	2,775

24. Agency services

Commission earned	263,388	292,091
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25. Other income

Clearance fees	41,302	98,106
Fire levy	40,661	52,269
Sundry income	785,900	787,470
Retentions forfeited	3,268,385	-
Insurance income	138,535	100,617
	4,274,783	1,038,462

26. Investment revenue

Interest revenue		
Investments	33,857,704	25,025,733
Debtors fair value adjustment	9,753,584	9,782,589
	43,411,288	34,808,322

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27. Government grants and subsidies

Operating grants		
Equitable share	618,487,000	673,097,266
Finance management grant	1,950,000	1,700,000
Local government seta	494,689	486,623
Energy efficiency and demand management grant	4,000,001	4,500,000
Climate change grant	17,831	-
Expanded public works programme	9,740,000	8,751,000
Rural roads asset management systems grant	2,340,000	2,309,000
Bank SETA	591,500	-
Infrastructure skills development grant	5,500,000	5,435,000
	643,121,021	696,278,889
Capital grants		
Water services infrastructure grant	145,000,000	94,950,000
Municipal infrastructure grant	487,510,912	340,429,205
Regional bulk infrastructure grant	78,695,173	57,097,656
	711,206,085	492,476,861
TOTAL	1,354,327,106	1,188,755,750

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

During the year the municipality received its draw downs as per National Treasury indicatives

Expanded Public Works Programme

Current-year receipts	9,740,000	8,751,000
Conditions met - transferred to revenue	(9,740,000)	(8,751,000)
	-	-

EPWP grant is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the EPWP guidelines: road maintenance and maintenance of buildings, low traffic volume roads and rural roads, basic services, infrastructure, including water and sewer reticulation, sanitation, pipelines (excluding bulk infrastructure) other economic and social infrastructure, tourism and cultural industries, waste management, parks and beautification, sustainable land based livelihoods, social services programmes and community safety programmes.

During the year, the municipality received its draw downs as per National Treasury indicatives

Finance Management Grant (FMG)

Current-year receipts	1,950,000	1,700,000
Conditions met - transferred to revenue	(1,950,000)	(1,700,000)
	-	-

The Finance Management Grant is allocated to municipalities to promote and support reforms in financial management by building capacity in municipalities to implement the Finance Management Act. No funds have been withheld.

During the year, the municipality received its draw downs as per National Treasury indicatives.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	88,732,914	70,880,119
Current-year receipts	398,778,000	358,282,000

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27. Government grants and subsidies (continued)

Conditions met - transferred to revenue

(487,510,914) (340,429,205)

- 88,732,914

The grant is meant to eradicate basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Rural Roads Asset Management Systems Grant

Current-year receipts

2,340,000

2,309,000

Conditions met - transferred to revenue

(2,340,000)

(2,309,000)

The grant is used to assist district municipalities to set up road asset management systems and collect road, bridge and traffic data on municipal road networks in line with the Road Infrastructure Strategic Framework for South Africa.

Infrastructure Skills Development Grant

Current-year receipts

5,500,000

5,435,000

Conditions met - transferred to revenue

(5,500,000)

(5,435,000)

The grant is used to recruit unemployed graduates into municipalities to be trained and professionally registered as per the requirements of the relevant statutory councils within the built environment

During the year, the municipality received its draw downs as per National Treasury indicatives..

Regional Bulk Infrastructure Grant (RBIG)

Current-year receipts

68,791,358

57,097,656

Conditions met - transferred to revenue

(78,695,173)

(57,097,656)

(9,903,815)

-

The grant is used to develop new, refurbish, upgrade and replace ageing bulk water and sanitation infrastructure of regional significance that connects water and sanitation infrastructure that connects water resources to infrastructure serving extensive areas across municipal boundaries or large bulk infrastructure serving numerous communities over a large area within a municipality.

To implement bulk infrastructure with a potential of addressing water conservation and water demand management (WC/WDM) projects to facilitate and contribute to the implementation of local (WC/WDM) projects that will directly impact on bulk infrastructure requirements.

The municipality receives money from DWA after meeting the conditions hence at year end the municipality had met conditions for R9 903 815 for which DWA was yet to pay the municipality.

Energy Efficiency and Demand Management Grant

Current-year receipts

4,000,000

4,500,000

Conditions met - transferred to revenue

(4,000,000)

(4,500,000)

The grant was used to subsidise to municipalities to implement energy efficiency and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

During the year, the municipality received its draw downs as per National Treasury indicatives.

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27. Government grants and subsidies (continued)**Water Services Infrastructure Grant (WSIG)**

Balance unspent at beginning of year	-	5,430,266
Current-year receipts	145,000,000	94,950,000
Conditions met - transferred to revenue	(145,000,000)	(94,950,000)
Recalled by treasury	-	(5,430,266)

The grant is used to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in rural municipalities.

During the year, the municipality received its draw downs as per National Treasury indicatives.

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28. Employee related costs

Basic	184,600,002	188,633,192
Bonus	11,833,893	11,442,671
Medical aid - company contributions	11,768,518	10,864,314
UIF	1,520,403	1,384,057
COIDA	-	1,707,587
SDL	2,119,663	1,737,284
Leave pay provision charge	1,854,940	3,090,411
Defined contribution plans	20,985,634	20,093,427
Overtime payments	4,918,605	4,937,716
Long-service awards	2,534,999	2,140,999
Transport allowance	17,666,623	17,597,909
Housing benefits and allowances	6,024,208	7,178,806
Standby Allowances	2,714,325	2,420,403
Shift allowances	3,209,407	2,266,834
Bargaining Council	67,157	64,572
	271,618,377	275,560,182

Remuneration of Municipal Manager

Annual remuneration	1,181,762	1,141,799
Car allowance	137,872	133,210
Annual bonus	98,480	93,751
Contributions to UIF, SDL and levy	19,442	16,012
Pension, housing and medical allowances	551,489	532,840
	1,989,045	1,917,612

Remuneration of Chief Financial Officer

Annual remuneration	1,067,764	1,184,628
Car allowance	274,668	299,710
Annual bonus	67,381	78,123
Contributions to UIF, Medical and Pension Funds	17,772	13,592
Leave pay	299,125	-
Acting Allowance	-	11,719
Housing Allowance	10,678	-
	1,737,388	1,587,772

Remuneration of Senior Manager - Corporate Services

Annual remuneration	747,873	346,603
Car Allowance	249,291	58,826
Annual bonus	10,387	26,741
Contributions to UIF, SDL and levy	13,669	3,105
Medical aid and pension allowances	186,968	22,730
	1,208,188	458,005

Remuneration of Senior Manager- Community Services

Annual remuneration	846,928	818,288
Car allowance	141,155	136,381
Annual bonus	70,577	65,162
Contributions to UIF, SDL and levy	16,143	13,382
Medical, pension and housing allowances	352,887	340,953
	1,427,690	1,374,186

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28. Employee related costs (continued)

Remuneration of Senior Manager- IDMS

Annual remuneration	796,194	789,068
Car allowance	191,356	183,448
Annual bonus	63,277	63,277
Contributions to UIF, SDL and levy	14,821	12,576
Medical and housing allowances	242,501	234,300
	1,308,149	1,282,669

Remuneration of Senior Manager - Planning and Economic Development

Annual remuneration	727,503	702,901
Car allowance	197,944	191,250
Annual bonus	60,625	33,882
Contributions to UIF, SDL and levy	12,318	9,853
Medical and pension allowances	226,433	218,776
	1,224,823	1,156,662

29. Remuneration of councillors

Councillors	10,499,130	10,823,698
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Remuneration of Councillors

Executive Mayor	875,434	893,850
Deputy Executive Mayor	478,395	536,414
Speaker	338,969	715,078
Chief Whip	687,724	670,387
Mayoral Committee members	4,515,794	4,566,460
Councillors	3,622,813	3,441,509
	10,499,129	10,823,698

Additional Information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

30. Litigation Expenditure

Legal fees	7,268,253	4,338,091
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31. Depreciation

Property, plant and equipment	102,768,522	95,782,290
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32. Amortisation of assets

Amortisation Intangible assets	492,017	526,608
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33. Finance costs

Interest on overdue accounts	406,049	3,617
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34. Lease rentals on operating lease

Premises		
Contractual amounts	471,164	366,767
Equipment		
Contractual amounts	1,030,877	630,007
	1,502,041	996,774

35. Debt impairment

Debt impairment	6,489,668	50,872
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36. Bulk purchases

Water	10,285,495	9,638,772
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37. Contracted services

Security services	30,478,774	26,380,971
Repairs and maintenance	59,210,564	77,968,251
Agric Park, EPWP, Pit toilets and other contractors	47,327,815	47,354,224
Professional services	13,943,822	24,050,697
	-	-
	-	-
	-	-
	150,960,975	175,754,143

38. Transfers and subsidies paid

Other subsidies		
Transfer to ANDA	17,391,304	17,391,304
Bursaries to non-employees	619,514	384,423
	18,010,818	17,775,727

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39. General expenses		
Advertising	2,529,690	3,669,094
Auditors remuneration	4,247,516	5,156,256
Bank charges	754,656	868,093
Cleaning	142,980	305,050
Consumables	7,949,128	4,850,086
Discount allowed	961,066	1,817,405
Insurance	4,401,065	2,008,810
Conferences and seminars	1,408,818	1,164,471
IT expenses	2,730,000	1,767,700
Fuel and oil	8,239,400	9,545,547
Printing and stationery	297,014	676,980
Protective clothing	109,610	446,128
Subscriptions and membership fees	3,428,179	3,711,237
Telephone and fax	8,583,661	8,266,301
Travel - local	15,720,783	15,226,290
Electricity	29,176,523	15,766,672
Accommodation	4,219,958	2,048,656
Audit committee	770,950	549,925
Catering and venue hire	1,876,767	745,530
Indigent support	5,495,636	8,632,889
Licence Fees	11,497,350	9,141,473
Other expenses	9,287,327	9,827,259
	123,828,077	106,191,852

40. Auditors' remuneration

Fees	4,247,516	5,156,256
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41. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Interest on bank balances	33,657,704	25,025,733
Operating lease charges		
Premises		
• Contractual amounts	471,164	366,767
Equipment		
• Contractual amounts	1,030,877	630,007
	1,502,041	996,774
Amortisation of intangible assets	492,017	526,608

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42. Cash generated from operations

Surplus	725,607,812	553,283,035
Adjustments for:		
Depreciation	102,768,522	95,782,290
Amortisation	492,017	526,608
(Loss) gain on disposal	641,947	1,149,510
Actuarial Gain or Loss	(1,657,993)	(255,716)
Interest on long term investment	(703,500)	(703,500)
Debt impairment	6,489,868	50,873
Movements in operating lease assets and accruals	18,483	(20,911)
Movements in provisions	175,816	1,243,738
Movement in employee benefits	1,537,993	1,558,716
Changes in working capital:		
Inventories	(2,713,343)	(5,722,391)
Receivables from exchange transactions	(6,141,772)	4,824,520
Other receivables from non-exchange transactions	8,017,536	(14,015,199)
Payables from exchange transactions	71,158,026	8,544,708
VAT	430,957	(32,409,196)
Unspent conditional grants and receipts	(88,732,914)	12,422,523
Payables from non exchange transactions	1,334,508	(563,693)
	816,723,763	625,695,915

43. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	495,076,061	675,916,881
Total capital commitments		
Already contracted for but not provided for	495,076,061	675,916,881

This committed expenditure relates to property and will be financed by grants and internally generated funds.

Operating leases - Buildings

Minimum lease payments due		
- within one year	503,489	277,181
- in second to fifth year inclusive	1,688,523	918,899
	2,171,992	1,196,080

Operating lease payments represent rentals payable by the municipality for office space in Matatiele and Cederville.

Rental expenses relating to operating leases		
Minimum lease payments	208,221	832,886

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44. Contingencies**Contingent Liabilities**

	2022	2021
1) Zolani Gulwa vs ANDM. In 2010 Zolani Gulwa issued summons against the municipality for breach of contract of employment alleging that the municipality failed to pay him in terms of the contract. The court found in favour of the Municipality.	-	566,189
2) Sinezpho Urban and Rural Development vs ANDM. Claim against the Municipality for alleged termination of contract. The Municipality is defending the matter.	1,544,713	1,544,713
3) Moko vs ANDM. Letter of demand received in lieu of specialist consultancy services rendered. The Municipality is defending the matter.	375,927	375,927
4) Supa Brick Tile vs ANDM: Claim for payment of outstanding balance for building material supplied as per cession agreement.	127,782	127,782
5) Mott MacDonald PDNA vs ANDM : Claim for outstanding amounts.	-	68,400
8) Natal Joint Municipal Pension Fund vs ANDM: Claim for payment of outstanding fund contribution	147,937	147,937
7) Eugene Nel and Anand Jayraj vs ANDM: Claim for outstanding payment in respect of construction of municipality's infrastructure	-	2,990,117
8) Sikhokele Maphukatha vs ANDM: Claim for repudiation of employment contract	6,600,000	6,600,000
9) Arule Security vs ANDM :Claim for payment outstanding for services rendered.	1,392,679	1,392,679
10) Madikizela vs ANDM: Alleged termination of contract of employment	3,000,000	3,000,000
11) Umso Construction vs ANDM- Claim for services rendered.	5,390,148	5,390,148
12) Yongama Gxumisa vs ANDM-Claim for repudiation of employment agreement.	5,000,000	5,000,000
13) Ntabankulu Regional Bulk Consultants vs ANDM- Alleged breach of contract	1,281,470	1,281,470
14) Sokhani Development vs ANDM- Claim for services rendered	19,505,211	-
	44,365,867	28,485,362

The municipality has been cited as a third respondent in case involving ANDA and FBBI Solutions where the complainant is suing ANDA for termination of contract.

The municipality has also been cited in a case involving ANDA and Madikizela where the complainant is suing ANDA for termination of employment.

Contingent assets

	2022	2021
ANDM vs MP Civils: Failure to deliver a crawler sprinkler.	30,700	30,700

45. Related parties**Related party balances**

Transfers to ANDA	17,391,304	17,391,304
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With regards to remuneration of section 56 managers, please refer to note 28 which deals with the remuneration to Senior Managers.

The municipality transferred R17 391 304 exclusive of VAT to its entity, ANDA

46. 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.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the municipality's financial performance.

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46. Risk management (continued)**Liquidity risk**

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.

Liquidity risk is mitigated by approving cash funded budgets at all times to ensure commitments can be settled once due over the long term. The municipality also monitors its cash balances on a daily basis to ensure cash resources are available to settle short term obligations.

The following balances are exposed to liquidity risk:

30 June 2022	Payable within 1 year	Payable in 2 to 5 years	Payable after 5 years	Total
Payables from exchange transactions	247,798,164	10,080,000	-	257,878,164
30 June 2021	Payable within 1 year	Payable in 2 to 5 years	Payable after 5 years	Total
Payables from exchange transactions	176,929,138	9,911,000	-	186,840,138

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46. Risk management (continued)**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 board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instrument	2022	2021
Long Term Investments	10,134,587	9,431,087
Receivables From Exchange Transactions	50,755,164	51,115,060
Receivables From Non Exchange Transactions	18,809,286	25,006,874
Cash and Cash Equivalents	866,839,445	775,143,517

Cash and Cash equivalents and Non Current Investments

Deposits of the municipality only held at reputable banks that are listed on the JSE. The credit quality is regularly monitored through required SENS releases by various banks. The risk pertaining to these deposits are considered to be very low.

There are no restrictions on the cash deposits held and no cash were pledged as security. No collateral is held for any cash and cash equivalents.

Receivables

Receivables comprise of a large number of users, dispersed across different sectors and geographical areas. On-going credit evaluations are performed on the financial condition of these receivables. Credit risk pertaining to receivables are considered to be moderate due to the diversified nature of receivables and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, council endeavours to collect such accounts by "levying of penalty charge", applicable in terms of Council's Credit Control and Debt Collection Policy.

Receivables disclosed after taking into account the provision for impairment raised against each class of receivable.

Receivables are payable within 30 days. All receivables are outstanding for than 30 days are considered to be past due. Refer to note 6 for more information regarding the provision for impairment raised against each service type as well as receivables considered to be past due.

No receivables were pledged as security for liabilities and no collateral is held from any consumers (other than consumer deposits)

The following service receivables are considered past due (more than 30 days outstanding)

Water	125,932,458	121,758,398
Sewerage	21,080,800	18,714,387
Other	1,392,297	1,480,730
	148,415,555	141,953,515

Long Term Receivables are disclosed after taking into account any provision for impairment raised against the outstanding balance. Each outstanding balance is individually assessed for impairment.

No receivables were pledged as security for liabilities and no collateral held from any of the counterparties.

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46. Risk management (continued)**Market risk****Interest rate risk**

Interest Rate Risk is the risk that the fair value of future cashflows associated with a financial instruments will fluctuate in amount as a result of market interest changes.

Financial Assets and liabilities that are sensitive to interest rate risk are cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentrations of interest risk consist mainly of fixed deposits investments, long term debtors, other debtors, short term investments deposits and bank and cash balances.

The municipality limits its counterpart exposures from its money market investments operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterpart is managed by setting percentage exposure limits, which are included in the municipality's investments policy. These limits are reviewed periodically by the Chief Financial Officer and authorised by the council.

The following balances are exposed to interest rate fluctuations:

Cash and Cash Equivalents	986,839,445	775,143,517
Non Current Investments	10,134,587	9,431,087
Net Balance Exposed	976,974,032	784,574,604

Potential effect of changes in interest rates on surplus and deficit to the year/period

9,769,740	7,845,748
(9,769,974)	(7,845,748)

Sensitivity analysis**Financial assets.**

At 30 June 2022, if the weighted average interest rate had been 100 points basis higher, with all other variables held constant, the fair-value impact on the financial performance would have been R9.76 million with the opposite effect if the interest rate had been 100 points basis lower.

The sensitivity analysis would be performed by dividing the total investment interest earned for the year by the average interest rate earned to give the effect of a one percent movement in interest rates.

Financial Liabilities

Changes in the interest rates as at 30 June 2022 would have had no impact on the statement of financial performance, as all borrowings are at fixed interest rate.

Price risk (Market Risk)

Other price risk is the risk that the fair value or future cashflows 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.

The municipality is not exposed to any other price risk.

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47. Unauthorised expenditure

Opening balance as previously reported	-	108,248,302
Opening balance as restated	-	108,248,302
Less: Authorised by council	-	(108,248,302)
Closing balance		-

48. Fruitless and wasteful expenditure

Opening balance as previously reported	17,844,047	17,840,472
Opening balance as restated	17,844,047	17,840,472
Add: Expenditure identified - current	406,049	3,575
Closing balance	18,250,096	17,844,047

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48. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

Interest paid to SARS		408,048
49. Irregular expenditure		
Opening balance as previously reported	435,183,293	1,411,533,760
Opening balance as restated	435,183,293	1,411,533,760
Add: Irregular Expenditure - current	19,626,330	5,054,312
Add: Irregular Expenditure - from previous contracts	83,935,186	79,335,385
Less: Amount written off - current	(196,635)	(1,060,740,164)
Less: Amount written off - prior period	(217,735,013)	-
Closing balance	320,813,161	435,183,293

AUDITOR GENERAL
SOUTH AFRICA

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49. Irregular expenditure (continued)		
Incidents/cases identified in the current year include those listed below:		
Not advertised as required by the SCM regulations.	196,635	-
SCM regulations not followed	18,429,695	-
	19,626,330	-

Cases under investigation

Investigations are in still in progress regarding some cases which are all related to non-compliance with the procurement process requirements.

Amount written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R196 635 during the course of the year and subsequent to year end a further R137 985 230.54 was written off from the total irregular expenditure amount as it was found that the municipality received value and the services were delivered in accordance with the contract stipulation.

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3,297,684	3,007,126
Amount paid - current year	(3,297,684)	(3,007,126)
	-	-

AUDITOR GENERAL
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50. Additional disclosure in terms of Municipal Finance Management Act (continued)**Audit fees**

Current year subscription / fee	4,247,516	5,156,256
Amount paid - current year	(4,247,516)	(5,156,256)

PAYE and UIF

Current year subscription / fee	44,954,258	44,298,045
Amount paid - current year	(44,954,258)	(44,298,045)

Pension and Medical Aid Deductions

Current year subscription / fee	54,547,394	52,317,053
Amount paid - current year	(54,547,394)	(52,317,053)

VAT

VAT receivable	42,145,166	42,576,200
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VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

Deviations Authorised

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Accounting Officer and noted by Council. The awards were approved by the Accounting Officer and noted by council.

Incident

Impractical to follow SCM processes	1,139,229	2,303,051
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Awards to close family members of persons in the service of the state

- 1) The Director from Munsoft is Ndiafhi Rerani spouse to Mary Rerani- She worked for the department of Justice.
- 2) The Director of IPM Zana Madikezela, the spouse of Babalo Madikezela the MEC of public works

Awards to persons in the service of the state.

Service provider	Position held in state
Dr Sondiyazi	Medical Doctor

This was for medical examination of water officials.

Suppliers paid after 30 Days

The Municipality did not always comply with the provisions of section 65 (2) (e) of the MFMA which requires that all payments be reasonably made within 30 days. This is due to inappropriate documentation, invalid banking details and delays in processing of DWS claims. The total amount of invoices that were not paid within 30 days is R 8 348 491.21.

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51. Financial instruments disclosure**Categories of financial instruments****2022****Financial assets**

	At amortised cost	At cost	Total
Long Term Investments	10,134,587	-	10,134,587
Unlisted Investments	-	100	100
Trade and Other Receivables from Exchange Transactions	50,755,164	-	50,755,164
Other Receivables From Non Exchange Transactions	18,989,330	-	18,989,330
Cash and Cash Equivalents	966,839,445	-	966,839,445
	1,046,718,526	100	1,046,718,626

Financial liabilities

	At amortised cost	Total
Trade and Other Payables From Exchange Transactions	245,796,164	245,796,164
Trade and Other Payables from Non Exchange Transactions	3,006,207	3,006,207
Operating Lease Liability	223,529	223,529
	249,025,900	249,025,900

2021**Financial assets**

	At amortised cost	At cost	Total
Long Term Investment	9,431,087	-	9,431,087
Unlisted Investments	-	100	100
Trade and Other Receivables from Exchange	51,115,060	-	51,115,060
Other Receivables from Non Exchange	25,006,874	-	25,006,874
Cash and Cash Equivalents	775,143,517	-	775,143,517
	860,696,538	100	860,696,638

Financial liabilities

	At amortised cost	Total
Trade and Other Payables from Exchange	174,638,138	174,638,138
Trade and Other Payables from Non Exchange	1,671,698	1,671,698
Unspent Grants	88,732,914	88,732,914
Operating Lease Liability	205,046	205,046
	265,247,796	265,247,796

52. Prior period errors

Prior period has been amended to account for prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassification of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual error with the amounts involved

The correction of the error(s) results in adjustments as follows:

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52. Prior period errors (continued)

Statement of Financial Performance for the year ended 2021	Balance as previously reported	Prior period error	Reclassified	Restated Balance
Service charges	16,271,761	10,450,294	-	26,722,055
Rental of facilities	2,775	-	-	2,775
Agency services	292,091	-	-	292,091
Other income	1,038,462	-	-	1,038,462
Interest received - investment	34,808,322	-	-	34,808,322
Government grants and subsidies	1,188,755,750	-	-	1,188,755,750
Actuarial gain	255,716	-	-	255,716
Revenue Total	1,241,424,877	10,450,294	-	1,251,875,171
Employee Related Costs	(275,698,105)	138,923	-	(275,560,182)
Remuneration of Councillors	(10,823,698)	-	-	(10,823,698)
General Expenses	(101,141,515)	(11,213,715)	6,163,377	(106,191,853)
Litigation Expenditure	(4,878,643)	541,552	-	(4,338,091)
Debt Impairment	(50,873)	-	-	(50,873)
Depreciation and amortisation	(95,984,127)	(324,771)	-	(96,308,898)
Finance Costs	(3,617)	-	-	(3,617)
Bulk purchases	(9,598,012)	(40,760)	-	(9,638,772)
Contracted services	(168,935,991)	(654,775)	(6,163,377)	(175,754,143)
Transfers and subsidies	(17,738,303)	(37,425)	-	(17,775,728)
Gain or loss on disposal	(1,149,510)	-	-	(1,149,510)
Operating leases	(906,243)	(90,531)	-	(996,774)
Surplus for the year	554,514,240	(1,231,208)	-	553,283,032

Statement of Financial Position as at 30 June 2021	Balances as previously reported	Prior period errors	Reclassified	Restated Balance
Inventories	16,952,024	-	-	16,952,024
Receivables from exchange transactions	52,215,857	(1,100,798)	-	51,115,059
Receivables from non- exchange transactions	25,222,005	(215,133)	-	25,006,872
VAT Receivable	43,164,219	(588,010)	-	42,576,209
Cash and cash equivalents	775,234,991	(91,478)	-	775,143,513
Property Plant and Equipment	4,571,432,053	(32,287,787)	-	4,539,144,266
Intangible Assets	1,327,208	-	-	1,327,208
Heritage Assets	131,100	-	-	131,100
Investments in Controlled Entities	100	-	-	100
Investments	9,431,087	-	-	9,431,087
Subtotal	5,495,110,644	(34,283,206)	-	5,460,827,438
Operating lease	(205,046)	-	-	(205,046)
Payables from exchange transactions	(179,193,684)	4,555,546	-	(174,638,138)
Unspent Conditional Grants	(88,732,914)	-	-	(88,732,914)
Provisions	(26,476,594)	138,923	-	(26,337,671)
Employee benefit obligation	(2,291,000)	-	-	(2,291,000)
Payables from non exchange from transactions	(1,671,698)	-	-	(1,671,698)
Employee benefits obligations	(9,911,000)	-	-	(9,911,000)
Opening Accumulated surplus	(5,186,628,708)	28,357,531	-	(5,158,271,177)
	-	(1,231,206)	-	(1,231,206)

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52. Prior period errors (continued)**Statement of financial position**

Accumulated Surplus	
Property Plant and Equipment	32,186,799
Correction of Receivables from Non Exchange Transactions	226,836
Correction of Payables from exchange transactions	(5,206,974)
Adjustment to receivables from exchange transactions	1,059,392
Correction of bank and cash	91,478
	28,357,531

The municipality conducted a search for unrecorded liabilities relating to 2020/21 financial year. The objective was to ensure that all the expenditure was reported correctly in the relevant accounting period.

The search revealed that our general expenditure had been understated by R763 000 while lease charges and contracted services had been understated by R90 531 and R654 775 respectively. The same process also resulted in the identification of an overstated accrual relating to litigation costs by an amount of R 541 000. The recording of these amounts had the effect of an upward variation of the previously recorded payables balance.

In addition, the municipality also undertook a thorough review of all its payables with particular emphasis on those that had remained static for a long time. The process resulted in the derecognition of amounts held as accruals for contractors under liquidation. The amount involved here was R5 million. Similarly, the municipality had been holding on to retentions for contractors that had failed to meet their side of the bargain. A decision was then made, guided by the terms of the contract, to effect a forfeiture of the retained amounts. The amount involved came to R2 million.

The municipality decided, guided by the relevant standards, to fully disclose the cost of indigent support as well as early payment discount. These were previously netted into the revenue thus not revealing the true picture. The retrospective adjustment resulted in an upward variation of revenue from exchange transaction by R10 450 000 with general expenditure going up by the same amount.

The municipality had previously reported Pit toilets as general expenditure, however, this was not in line with the nature of the transaction and thus a decision was made to move these to contracted services. The effect of this was a downward movement of general expenditure by R6 163 377 while contracted services went up by the same amount.

The municipality had previously incorrectly capitalised domestic water meters installed at consumers premises. These were derecognised in line with GRAP 17. This resulted in an adjustment of R32 million on PPE with accumulated surplus absorbing the charge.

The amount disclosed for water losses was adjusted on discovering of rounding off error on the AFS.