



**Engcobo Local Municipality
Annual Financial Statements
for the year ended 30 June 2021**

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

Legal form of entity	The entity function as a local municipality, established under paragraph 151 of the constitution of the Republic of South Africa.
Nature of business and principal activities	Engcobo Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998). The municipality's operations are governed by: - Municipal Finance Management Act (No 56 of 2003) - Municipal Structures Act (No 117 of 1998) - Municipal Systems Act (No 32 of 2000) and various other acts and regulations
The following is included in the scope of operation	The following are the principal activities of the municipality: Provide democratic activities and accountable government Ensure sustainable service delivery to communities Provide social and economic development Provide basic service to the community
Executive committee	
Mayor	S Zangqa N Macingwane, Speaker M Kondile, Chief Whip
Councillors	B Setheni, Corporate Services M Mpoyi, SPU B Nobuntu, Community Services M Kondile, Infrastructure K Bizana, Finance F Mntabeko, Waste and Refuse MS Tunce, Ward 1 Z Jabanga, Ward 2 S Noludwe, Ward 3 EM Macingwane, Ward 4 N Hokwana, Ward 5 TS Mbekeni, Ward 6 NM Sifanqala, Ward 7 S Ngxangu, Ward 8 S Guma, Ward 9 NN Lilane, Ward 10 N Yalezo, Ward 11 S Sirataza, Ward 12 S Mfeki, Ward 13 A Gqolontshi, Ward 14 T Ngxangane, Ward 15 ZA Makhasi, Ward 16 S Lobi, Ward 17 NE Ngwangwa, Ward 18 A Mzolisa, Ward 19 C Hlazo, Ward 20 S Marene N Tolbhadi M Tyantsi WS Mafufu S Xuma

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

	B Booie T Daniel NAN Dayisi M Sobantu M Mbenyane N Sipendu
Grading of local authority	Grade 3
Accounting Officer (Municipal Manager)	M Moyo
Chief Finance Officer (CFO)	NF Siwahla
Registered office	58 Union Street Engcobo 5050
Postal address	PO Box 24 Engcobo 5050
Bankers	First National Bank
Auditors	Auditor General of South Africa Registered Auditors
Attorneys	Various
Telephone	047 548 5600
Fax	047 548 1078



Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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The reports and statements set out below comprise the Annual Financial Statements presented to the Council:

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CHDM	Chris Hani District Municipality
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPED	Integrated Planning and Economic Development
IPSAS	International Public Sector Accounting Standards
LG SETA	Local Government Sector Education And Training
MEC	Member of the Executive Council
MIG	Municipal Infrastructure Grant
MFMA	Municipal Finance Management Act
SALA	South African Local Authorities
SAMWU	South African Municipal Workers Union
SMME	Small, Medium and Micro Enterprises
VAT	Value Added Tax

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No 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 was 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 accounting officer is responsible for the preparation of these Annual Financial Statements, which are set out on pages 6 to 78, in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) and which I have signed on behalf of the municipality.

The accounting officer certifies that the salaries, allowances and benefits of Councillors as disclosed in note 26 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Cooperative Governance and Traditional Affairs' determination in accordance with this Act.

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, the accounting officer 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 2022 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 Department of Cooperative Governance and Traditional Affairs for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Department of Cooperative Governance and Traditional Affairs has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The Annual Financial Statements set out on pages 5 to 78, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed by:

M Moyo (Municipal Manager)

31 August 2021

**AUDITOR GENERAL
SOUTH AFRICA**

22 FEB 2022

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in Engcobo Local Municipality and is a South African Category B and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached Annual Financial Statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 500,306,243 and that the municipality's total assets exceed its liabilities by R 500,306,243.

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. Events after the reporting period

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

4. Non-current assets

There were no changes in the policy relating to the use of non-current assets.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Non-Current Assets			
Investment property	2	7,852,813	8,040,993
Property, plant and equipment	3	463,733,084	421,592,396
Intangible assets	4	600,414	1,043,968
Heritage assets	5	2,406,511	2,406,511
		474,592,822	433,083,868
Current Assets			
Receivables from exchange transactions	6	328,132	306,326
Receivables from non-exchange transactions	7	235,526	1,604,879
VAT receivable	8	3,148,936	2,568,191
Operating lease asset	9	3,861	-
Cash and cash equivalents	10	99,320,017	65,759,254
		103,036,472	70,238,650
Total Assets		577,629,294	503,322,518
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	23,103,720	16,768,071
Payable from non-exchange transactions	12	259,620	248,904
Unspent conditional grants and receipts	13	23,850,633	17,297,324
Employee benefit obligation	14	480,000	268,000
Other financial liabilities	15	28,800	115,200
		47,722,773	34,697,499
Non-Current Liabilities			
Provisions	16	26,143,278	24,561,629
Employee benefit obligation	14	3,457,000	3,223,000
Other financial liabilities	15	-	28,800
		29,600,278	27,813,429
Total Liabilities		77,323,051	62,510,928
Net Assets		500,306,243	440,811,590
Accumulated surplus		500,306,243	440,811,590

* See Note 51

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	1,103,203	1,079,378
Rental of facilities and equipment	18	176,675	155,966
Interest earned on outstanding debtors	18	893,874	788,679
Licences and permits	18	3,731,197	1,914,061
Other income	19	1,699,809	728,145
Interest received	20	3,245,840	5,325,626
Profit on disposal of assets	34	1,387,860	-
Actuarial gains	14	80,000	22,909
Total revenue from exchange transactions		12,318,458	10,014,764
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	6,574,009	6,919,847
Transfer revenue			
Government grants & subsidies	22	259,423,525	198,746,107
Donations received	23	55,031	190,161
Fines	24	86,520	518,520
Total revenue from non-exchange transactions		266,139,085	206,374,635
Total revenue	18	278,457,543	216,389,399
Expenditure			
Employee costs	25	(88,101,418)	(87,008,327)
Remuneration of councillors	26	(15,245,177)	(15,605,571)
Depreciation and amortisation	27	(32,493,961)	(31,982,185)
Impairment losses	28	(1,857,513)	(1,467,831)
Finance costs	29	(2,270,753)	(2,395,847)
Hire of equipment	30	(1,782,239)	(1,757,571)
Debt Impairment	31	(4,139,291)	(1,969,013)
Contracted services	32	(21,792,721)	(18,989,464)
Transfers and Subsidies	33	(4,230,726)	(3,155,342)
Loss on disposal of assets	34	-	(13,865)
Operational costs	35	(47,049,091)	(38,886,845)
Total expenditure		(218,962,890)	(203,231,861)
Surplus for the year		59,494,653	13,157,538

* See Note 51

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	427,654,052	427,654,052
Changes in net assets		
Surplus for the year as previously reported	12,742,927	12,742,927
Total changes	12,742,927	12,742,927
Opening balance as previously reported	440,396,979	440,396,979
Adjustments		
Correction of errors	414,611	414,611
Balance at 01 July 2020	440,811,590	440,811,590
Changes in net assets		
Surplus for the year	59,494,653	59,494,653
Total changes	59,494,653	59,494,653
Balance at 30 June 2021	500,306,243	500,306,243

* See Note 51

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		5,073,913	3,409,592
Grants		265,976,834	214,802,392
Other receipts		14,159,263	6,433,102
		285,210,010	224,645,086
Payments			
Employee costs		(101,342,129)	(101,438,682)
Suppliers		(71,059,050)	(66,498,925)
		(172,401,179)	(167,937,607)
Net cash flows from operating activities	39	112,808,831	56,707,479
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(84,878,107)	(45,295,884)
Proceeds from sale of property, plant and equipment	3	2,409,742	-
Purchase of other intangible assets	4	(26,640)	(40,000)
Proceeds from sale of other intangible assets	4	1,097	-
Net cash flows from investing activities		(82,493,908)	(45,335,884)
Cash flows from financing activities			
Interest		3,245,840	5,325,626
Net increase/(decrease) in cash and cash equivalents		33,560,763	16,697,221
Cash and cash equivalents at the beginning of the year		65,759,254	49,062,033
Cash and cash equivalents at the end of the year	10	99,320,017	65,759,254

* See Note 51

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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	1,408,554	-	1,408,554	1,103,203	(305,351)	A1
Rental of facilities and equipment	539,000	(143,000)	396,000	176,675	(219,325)	A2
Interest earned on outstanding debtors	-	750,000	750,000	893,874	143,874	A3
Licenses and permits	3,700,000	-	3,700,000	3,731,197	31,197	
Other revenue	11,342,000	33,926,267	45,268,267	1,699,809	(43,568,458)	A4
Interest received - investment	3,800,000	-	3,800,000	3,245,840	(554,160)	A5
Total revenue from exchange transactions	20,789,554	34,533,267	55,322,821	10,850,598	(44,472,223)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7,029,946	199,968	7,229,914	6,574,009	(655,905)	A6
Transfer revenue						
Government grants & subsidies	240,965,000	44,269,392	285,234,392	259,423,525	(25,810,867)	A7
Donations received	-	-	-	55,031	55,031	A8
Fines	1,800,000	(1,127,000)	673,000	86,520	(586,480)	A9
Total revenue from non-exchange transactions	249,794,946	43,342,360	293,137,306	266,139,085	(26,998,221)	
Total revenue	270,584,500	77,875,627	348,460,127	276,989,683	(71,470,444)	
Expenditure						
Employee costs	(97,353,420)	(1,544,623)	(98,898,043)	(88,101,418)	10,796,625	A10
Remuneration of councillors	(16,901,344)	-	(16,901,344)	(15,245,177)	1,656,167	A11
Depreciation and amortisation	(49,500,000)	(4,000,000)	(53,500,000)	(32,493,961)	21,006,039	A12
Impairment loss	-	-	-	(1,857,513)	(1,857,513)	A12
Finance costs	-	-	-	(2,270,753)	(2,270,753)	A12
Hire of equipment	(2,000,000)	-	(2,000,000)	(1,782,239)	217,761	A13
Debt Impairment	(2,500,000)	-	(2,500,000)	(4,139,291)	(1,639,291)	A14
Contracted Services	(25,986,000)	(5,575,922)	(31,561,922)	(21,792,721)	9,769,201	A15
Transfers and Subsidies	(100,000)	(6,491,800)	(6,591,800)	(4,230,726)	2,361,074	A16
Operational costs	(54,073,992)	4,759,748	(49,314,244)	(47,049,091)	2,265,153	A17
Total expenditure	(248,414,756)	(12,852,597)	(261,267,353)	(218,962,890)	42,304,463	
Operating surplus	22,169,744	65,023,030	87,192,774	58,026,793	(29,165,981)	
Profit on disposal of assets	-	-	-	1,387,860	1,387,860	
Actuarial gains/losses	-	-	-	80,000	80,000	
	-	-	-	1,467,860	1,467,860	
Surplus/ (Deficit)	22,169,744	65,023,030	87,192,774	59,494,653	(27,698,121)	
Actual Amount on Comparable Basis as Presented	22,169,744	65,023,030	87,192,774	59,494,653	(27,698,121)	

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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
Figures in Rand					
Statement of Financial Position					
Assets					
Current Assets					
Operating lease asset	-	-	-	3,861	3,861
Receivables from exchange transactions	8,127,943	(3,892,994)	4,234,949	563,658	(3,671,291) A18
VAT receivable	3,597,172	-	3,597,172	3,148,936	(448,236) A19
Cash and cash equivalents	61,698,387	16,838,972	78,537,359	99,320,017	20,782,658 A20
	73,423,502	12,945,978	86,369,480	103,036,472	16,666,992
Non-Current Assets					
Investment property	4,161,669	-	4,161,669	7,852,813	3,691,144 A21
Property, plant and equipment	529,207,808	65,460,404	594,668,212	463,733,084	(130,935,128) A22
Intangible assets	1,504,575	-	1,504,575	600,414	(904,161)
Heritage assets	2,406,511	-	2,406,511	2,406,511	-
	537,280,563	65,460,404	602,740,967	474,592,822	(128,148,145)
Total Assets	610,704,065	78,406,382	689,110,447	577,629,294	(111,481,153)
Liabilities					
Current Liabilities					
Other financial liabilities	-	-	-	28,800	28,800
Payables from exchange transactions	-	-	-	23,103,720	23,103,720
Payables from non-exchange	20,218,055	22,851,787	43,069,842	259,620	(42,810,222) A23
Employee benefit obligation	-	-	-	480,000	480,000
Unspent conditional grants and receipts	-	-	-	23,850,633	23,850,633
Provisions	5,295,000	-	5,295,000	-	(5,295,000) A24
	25,513,055	22,851,787	48,364,842	47,722,773	(642,069)
Non-Current Liabilities					
Employee benefit obligation	-	-	-	3,457,000	3,457,000
Provisions	25,866,008	-	25,866,008	26,143,278	277,270
	25,866,008	-	25,866,008	29,600,278	3,734,270
Total Liabilities	51,379,063	22,851,787	74,230,850	77,323,051	3,092,201
Net Assets	559,325,002	55,554,595	614,879,597	500,306,243	(114,573,354)
Net Assets					
Net Assets Attributable to Owners of Controlling Entity					
Reserves					
Accumulated surplus	559,325,002	55,554,595	614,879,597	500,306,243	(114,573,354)

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Service charges	1,338,126	-	1,338,126	5,073,913	3,735,787	
Grants	240,815,000	44,419,000	285,234,000	265,976,834	(19,257,166)	
Other receipts	26,185,532	34,940,317	61,125,849	14,159,263	(46,966,586)	
	268,338,658	79,359,317	347,697,975	285,210,010	(62,487,965)	
Payments						
Employee costs	(192,904,754)	(16,362,599)	(209,267,353)	(101,342,129)	107,925,224	
Suppliers	-	-	-	(71,059,050)	(71,059,050)	
	(192,904,754)	(16,362,599)	(209,267,353)	(172,401,179)	36,866,174	
Net cash flows from operating activities	75,433,904	62,996,718	138,430,622	112,808,831	(25,621,791)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(63,197,650)	(79,990,404)	(143,188,054)	(84,878,107)	58,309,947	
Proceeds from sale of property, plant and equipment	500,000	-	500,000	2,409,742	1,909,742	
Purchase of other intangible assets	-	-	-	(26,640)	(26,640)	
Proceeds from sale of other intangible assets	-	-	-	1,097	1,097	
Net cash flows from investing activities	(62,697,650)	(79,990,404)	(142,688,054)	(82,493,908)	60,194,146	
Cash flows from financing activities						
Interest income	-	-	-	3,245,840	3,245,840	
Net increase/(decrease) in cash and cash equivalents	12,736,254	(16,993,686)	(4,257,432)	33,560,763	37,818,195	
Cash and cash equivalents at the beginning of the year	49,062,033	16,697,221	65,759,254	65,759,254	-	
Cash and cash equivalents at the end of the year	61,798,287	(296,465)	61,501,822	99,320,017	37,818,195	

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1. BASIS OF ACCOUNTING

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 (No 56 of 2003).

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

A summary of the significant accounting policies, which have been consistently applied in the preparation of these Annual Financial Statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These Annual Financial Statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Critical judgements, estimates and assumptions

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:

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that these assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The provision for bad debts is calculated as followings:

- calculated per debtor type i.e. Residential, Business & Government etc.
- all debt outstanding for more than 120 days are provided for by 100%.
- all debts outstanding for more than 60 days and 90 days are provided for by 100% less the recovery percentage per debtor type for the year.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Impairment of receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on the history of payments made for municipal services over the last twelve months.

Provisions and contingencies

The Landfill Site Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the statement of financial position date at a risk free rate of 8.25%.

The asset is measured using the cost model:

Subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

If the adjustment results in an addition to the cost of the asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

Useful lives of property, plant and equipment

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time. It is a subjective estimate based on management's experience.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - Land	indefinite
Property - buildings	25 - 60 years
Braai facilities	5 years
Park furniture	15 years
Water tanks	10 - 20 years
Fences, gates and walls	25 - 30 years
Lapas and ablutions	30 years
Bridges and stormwater	3 - 80 years
Swimming pool	30 years
Internal roads and parking	3 - 30 years

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- All properties held to earn market related rentals or for capital appreciation, or for both and are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.
- Land held without determined future use.

1.4 Property, plant and equipment

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

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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

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

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

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

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

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

Major 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.

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

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

Item	Average useful life
Infrastructure	3 - 80 years
Buildings	5 - 60 years
Recreational facilities	25 - 30 years
Community assets	5 - 60 years
Libraries	25 - 30 years
Machinery and equipment	2 - 20 years
Transport Assets	5 - 15 years
Furniture and office equipment	5 - 15 years
Computer equipment	5 - 10 years
Memorials and statues	Indefinite life
Museums	Indefinite life
Heritage sites	Indefinite life
Artworks	Indefinite life
Finance lease assets	2 - 5 years

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

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

The depreciation method used reflects the pattern in which the 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 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

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1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability after the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit;
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality 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.

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.

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.

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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.

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

Item	Useful life
Computer software	5 - 15 years

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.

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 the 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 5).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5).

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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.

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.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a 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).

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1.8 Financial instruments

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

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 municipality 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 municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; 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.

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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 a 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 a entity.

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

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

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

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

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

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at amortised cost
Cash and bank	Financial asset measured at amortised cost
Short term deposits (call accounts)	Financial asset measured at amortised cost

The municipality 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:

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Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease liability	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value.

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

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.

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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 municipality reclassifies the instrument from cost to fair value.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

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

Presentation

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

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised 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.

A financial asset and a financial liability are only offset and the 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.

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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.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

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

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

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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 municipality assesses the classification of each element separately.

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

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

Operating leases - lessor

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

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.

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 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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Useful life is either:

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

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Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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.

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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.

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.12 Employee benefits

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

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

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

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

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

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

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

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

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

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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 municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

The municipality recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality 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 municipalities that are not under common control and use those assets to provide benefits to employees of more than one municipality, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned.

Post-employment benefits: Defined contribution plans

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

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

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

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

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Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

If an municipality 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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A constructive obligation to restructure arises only when an municipality:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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

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

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

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

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the municipality consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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.

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.

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

Dividends, or their equivalents 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.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Revenue from non-exchange transactions

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

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

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

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

1.17 Borrowing costs

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

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

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure 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 in the statement of financial performance in 9 months that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

Irregular expenditure is 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.

1.22 Use of estimates

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

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 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.

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

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

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

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.26 Related parties

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

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.27 Recovery of unauthorised, irregular, fruitless and wasteful expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income in the Statement of Financial Performance.

1.28 Events after reporting date

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

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

The Municipality will adjust the amounts recognised in the Annual 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 Annual Financial Statements.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

2. Investment property

	2021			2020		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	8,752,112	(899,299)	7,852,813	8,752,112	(711,119)	8,040,993

Reconciliation of investment property - 2021

	Opening balance	Depreciation	Total
Investment property	8,040,993	(188,180)	7,852,813

Reconciliation of investment property - 2020

	Opening balance	Transfers received	Depreciation	Total
Investment property	4,161,669	3,976,812	(97,488)	8,040,993

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2021			2020		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	9,123,000	-	9,123,000	9,123,000	-	9,123,000
Buildings	42,353,326	(6,250,881)	36,102,445	35,833,514	(4,584,261)	31,249,253
Infrastructure - Solid waste	20,072,458	(16,880,179)	3,192,279	20,509,563	(16,525,185)	3,984,378
Machinery and equipment	42,610,621	(17,871,099)	24,739,522	35,386,994	(20,350,080)	15,036,914
Furniture and office equipment	4,800,503	(3,336,267)	1,464,236	4,659,043	(2,967,159)	1,691,884
Transport Assets	15,886,026	(12,035,024)	3,851,002	17,391,036	(12,617,441)	4,773,595
Computer equipment	5,445,712	(3,437,780)	2,007,932	5,067,429	(2,933,577)	2,133,852
Infrastructure-Roads	537,725,631	(294,706,011)	243,019,620	510,529,019	(270,540,487)	239,988,532
Community	72,385,309	(15,209,651)	57,175,658	60,516,962	(13,103,125)	47,413,837
Work in progress	82,774,699	-	82,774,699	65,904,762	-	65,904,762
Telecommunications equipment	1,083,294	(800,603)	282,691	673,419	(381,030)	292,389
Total	834,260,579	(370,527,495)	463,733,084	765,594,741	(344,002,345)	421,592,396

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2021

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other movements	Depreciation	Impairment loss	Total
Land	9,123,000	-	-	-	-	-	-	-	9,123,000
Buildings	31,249,253	289,949	-	6,229,864	-	-	(1,666,621)	-	36,102,445
Infrastructure-Solid waste	3,984,378	-	-	-	-	(437,105)	(354,994)	-	3,192,279
Machinery and equipment	15,036,914	12,869,891	(625,924)	-	-	-	(2,541,359)	-	24,739,522
Furniture and office equipment	1,691,884	223,967	(33,005)	-	-	-	(418,610)	-	1,464,236
Transport assets	4,773,595	601,526	(314,979)	-	-	-	(1,209,140)	-	3,851,002
Computer equipment	2,133,852	714,637	(46,449)	-	-	-	(781,413)	(12,695)	2,007,932
Infrastructure-Roads	239,988,532	378,272	-	26,818,340	-	-	(22,321,239)	(1,844,285)	243,019,620
Community	47,413,837	340,952	-	11,527,395	-	-	(2,105,993)	(533)	57,175,658
Work in progress	65,904,762	69,029,769	-	-	(52,159,832)	-	-	-	82,774,699
Telecommunications equipment	292,389	429,144	(1,525)	-	-	-	(437,317)	-	282,691
	421,592,396	84,878,107	(1,021,882)	44,575,599	(52,159,832)	(437,105)	(31,836,686)	(1,857,513)	463,733,084

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 31 June 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	9,123,000	-	-	-	-	-	-	9,123,000
Buildings	33,401,584	426,866	-	-	(1,115,687)	(1,463,510)	-	31,249,253
Infrastructure-Solid Waste	4,567,592	91,892	-	-	-	(675,106)	-	3,984,378
Machinery and equipment	17,302,381	73,711	-	-	-	(2,339,178)	-	15,036,914
Furniture and office equipment	2,036,088	88,652	-	-	-	(432,856)	-	1,691,884
Transport assets	5,700,475	699,950	-	-	-	(1,260,827)	(366,003)	4,773,595
Computer equipment	1,993,122	845,919	-	-	-	(705,189)	-	2,133,852
Infrastructure-Roads	258,679,050	1,554,394	-	3,065,444	-	(22,234,489)	(1,075,867)	239,988,532
Community	46,706,761	3,137,828	-	-	(472,079)	(1,932,712)	(25,961)	47,413,837
Work in progress	35,845,665	38,275,406	-	(5,496,085)	(2,720,224)	-	-	65,904,762
Telecommunication equipment	411,723	193,158	(13,865)	-	-	(298,627)	-	292,389
	415,767,441	45,387,776	(13,865)	(2,430,641)	(4,307,990)	(31,342,494)	(1,467,831)	421,592,396

Included in transfers is other transfers to the amount of R7 584 232 (2020: R2 720 224) relates to completed electrification projects that were transferred to expenditure.

The municipality has 215 movable assets with a carrying value of R nil at year end. The cost price of these assets is R9,149,645. These assets are in poor condition and a listing has been provided to Council to approve the disposal thereof.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
3. Property, plant and equipment (continued)		
Pledged as security		
There are no assets pledged as security.		
Assets subject to finance lease (Net carrying amount)		
Leasehold property	3,192,279	3,984,378
Other equipment	282,691	292,389
	3,474,970	4,276,767
Property, plant and equipment in the process of being constructed or developed		
Buildings	1,749,377	2,906,604
Community	15,093,880	19,852,239
Infrastructure	20,580,342	16,007,688
Electrification projects	45,351,100	27,138,231
	82,774,699	65,904,762
Expenditure incurred to repair and maintain property, plant and equipment		
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	3,992,718	3,718,957
Repairs and maintenance per asset class:		
Building and other structures	575,961	678,188
Tools and equipment	2,755,576	2,389,227
Vehicle implements	360,551	359,869
Roads and stormwater	239,194	205,342
Electricity repairs	61,436	86,331
	3,992,718	3,718,957

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The useful life of some of the assets has been re-assessed as at the beginning of the financial year based on the condition of the assets.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

4. Intangible assets

	2021			2020		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,993,900	(2,393,486)	600,414	2,984,235	(1,940,267)	1,043,968

Reconciliation of intangible assets - 30 June 2021

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	1,043,968	26,640	(1,097)	(469,097)	600,414

Reconciliation of intangible assets - 30 June 2020

	Opening balance	Additions	Amortisation	Total
Computer software	1,504,575	40,000	(500,607)	1,043,968

Pledged as security

There are no intangible assets pledged as security.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

5. Heritage assets

	2021			2020		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Heroes Park	2,077,261	-	2,077,261	2,077,261	-	2,077,261
Mayoral Chains	329,250	-	329,250	329,250	-	329,250
Total	2,406,511	-	2,406,511	2,406,511	-	2,406,511

Reconciliation of heritage assets 2021

	Opening balance	Total
Heroes Park	2,077,261	2,077,261
Mayoral Chains	329,250	329,250
	2,406,511	2,406,511

Reconciliation of heritage assets 2020

	Opening balance	Total
Heroes Park	2,077,261	2,077,261
Mayoral Chains	329,250	329,250

Condition of heritage assets

The balances reflected above represent the fair value of the assets at the date of acquisition. Heritage assets were assessed for any signs of impairment as at 30 June 2021 and it was found that there were no indications of impairment.

Pledged as security

There are no heritage assets pledged as security.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
6. Receivables from exchange transactions		
Service debtors	328,132	298,326
Creditors with debit balances	-	8,000
	328,132	306,326
Service debtors		
Refuse		
Gross balance	2,958,233	2,385,718
Less: Provision for bad debts	(2,630,101)	(2,055,371)
	328,132	330,347
Creditors with debit balances		
Gross balance	8,000	8,000
Less: Provision for bad debts	(8,000)	-
	-	8,000
Refuse: ageing		
Current (0-30)	217,349	211,677
31-60 days	84,756	89,234
61-90 days	81,470	87,066
+91 days	2,574,658	1,997,741
	2,958,233	2,385,718

Trade and other receivables past due but not impaired

As at 30 June 2021, receivables from exchange transactions of R 110,782 (2020:R 118,662) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	84,756	89,233
2 months past due	26,026	29,429

Reconciliation of doubtful debt provision

Opening balance	(2,055,371)	(1,572,100)
Provision for impairment - Service charges	(574,730)	(510,384)
Provision for impairment - Creditors with debit balances	(8,000)	-
Amounts written off as uncollectible	-	27,113
	(2,638,101)	(2,055,371)

During 2017 financial year an amount of R8 000 was overpaid to the supplier. As at 30 June 2021 the Municipality has provided for the amount as doubtful.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
7. Receivables from non-exchange transactions		
Rates	9,180,133	6,983,574
Sundry debtors	1,498,775	1,508,125
Less: Provision for doubtful debts	(10,443,382)	(6,886,820)
	235,526	1,604,879
Rates		
Gross balance	9,169,335	6,993,460
Debtors who signed agreements	-	(9,874)
Plus: Debtors with credit balances	10,798	-
Less: Provision for doubtful debt	(8,944,607)	(6,810,237)
	235,526	173,349
Sundry debtors		
Gross balance	1,498,775	1,508,125
Less: Provision for doubtful debt	(1,498,775)	(76,583)
	-	1,431,542
Rates: Ageing		
Current (0-30 days)	125,033	96,456
31-60 days	59,857	46,751
61-90 days	58,927	46,478
+91 days	8,925,518	6,803,775
	9,169,335	6,993,460
Total receivables from non-exchange transactions	235,526	1,604,879
Receivables from non-exchange transactions past due but not impaired		
At 30 June 2021, receivables from non-exchange transactions of R 97,832 (2020: R 86,770) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	59,857	46,752
2 months past due	37,975	40,018
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(6,886,820)	(5,403,385)
Provision for impairment	(3,556,562)	(1,483,435)
	(10,443,382)	(6,886,820)
8. VAT receivable		
VAT	3,148,936	2,568,191

The Municipality is registered for VAT on payment basis.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
9. Operating lease asset		
Operating lease	3,861	-
Minimum lease payments receivable		
- within one year	84,939	-
- in second to fifth year inclusive	-	-
	84,939	-

Engcobo Local Municipality entered into a two year lease agreement with Emergency Medical Services for the rental of two offices at the fire station building. The lease commenced on 01 July 2020, and will end on 30 June 2022. The lease amount for the first year is R7,400 per month inclusive of VAT. The escalation rate is 10% over the lease period.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	(336,020)	295,433
Call accounts	99,656,037	65,463,821
	99,320,017	65,759,254

Cash and cash equivalents pledged as collateral

There is no cash and cash equivalent pledged as security.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
First National Bank - Public Sector Cheque Acc - 52171242061	104,356	295,433	261,184	(336,020)	295,433	261,184
First National Bank - Municipal Infrastructure Grant Acc - 62095050523	22,668,601	11,341,388	6,486	22,668,601	11,341,388	6,486
First National Bank - VAT Refund Acc - 62095030426	21,913,363	1,353,662	14,676	21,913,363	1,353,662	14,676
First National Bank - Finance Management Grant Acc - 62095026524	1,322	3,021	6,846	1,322	3,021	6,846
First National Bank - ELM Main Investment Acc - 62024356570	47,156,346	3,877,624	47,267,088	47,156,346	3,877,624	47,267,088
First National Bank - Covid 19 Solidarity Fund Acc - 61217013327	195,506	283,566	2,854	195,506	283,566	2,854
First National Bank - Equitable Share Acc - 62012728484	6,568,988	120,955	215,194	6,568,988	120,954	215,194
First National Bank - Electrification Grant Acc - 62027299967	1,150,284	5,462,358	3,184	1,150,284	5,462,358	3,184
First National Bank - SMME Support Investment Acc - 62747881739	1,627	2,287	1,284,521	1,627	2,287	1,284,521
First National Bank - Fixed Deposit Acc - 71817847498	-	43,018,960	-	-	43,018,960	-
Total	99,760,393	65,759,254	49,062,033	99,320,017	65,759,253	49,062,033

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
11. Payables from exchange transactions		
Trade payables	4,015,692	2,751,797
Other trade payables	505,797	125,717
Accruals and 13th Cheque	5,018,518	2,797,924
Leave accrual	7,101,905	5,788,193
Retention accruals	6,461,808	5,304,440
	23,103,720	16,768,071
12. Payables from non-exchange transactions		
Rates debtors with credit balances	259,620	248,904
13. Unspent conditional grants and receipts		
Unspent conditional grants from other spheres of government		
Unspent conditional grants and receipts		
Electrification Grant	1,150,284	5,374,751
Municipal Infrastructure Grant (MIG)	22,659,309	11,348,907
Library Grant	-	300,842
Chris Hani District Municipality - Whistle blowing facilities	41,040	41,040
Disaster management - COVID-19	-	231,784
	23,850,633	17,297,324
Movement during the year		
Balance at the beginning of the year	17,297,324	1,241,039
Additions during the year	83,849,835	66,521,392
Income recognition during the year	(74,309,526)	(50,465,107)
Funds retained by National Treasury	(2,987,000)	-
	23,850,633	17,297,324
Non-current liabilities	-	-
Current liabilities	23,850,633	17,297,324
	23,850,633	17,297,324

See note 22 for reconciliation of grants from National/Provincial Government for revenue recognised during the financial year.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
14. Employee benefit obligations		
Defined benefit and contribution plan		
The following are defined benefit plans: SAMWU Provident Fund, Cape Joint Pension Fund, National Fund for Municipal Workers and Councillors' Pension Fund. These contributions have been expensed. These funds have been registered and governed under the Pension Fund Act, 1956 as amended. These multi-employer plans are accounted for as defined contribution plans because sufficient information is not available to account for the municipality's share of these plans as defined benefit plans.		
There were 36 employees that belong to SAMWU Provident Fund (2020: 53), 49 employees that belong to Cape Joint Pension (2020: 63), 139 employees that belong to the National Fund for Municipal Workers (2020: 121), 1 employee that belongs to South African Local Authorities Pension Fund, and 40 councillors that belong to the Councillors' Pension Fund (2020: 38) during 2021 financial year.		
Amounts contributed to the plans are as follows:		
SAMWU Provident Fund		
Employer	996,997	1,242,379
Employee	498,499	621,189
	1,495,496	1,863,568
Cape Joint Pension Fund		
Employer	1,626,225	2,069,742
Employee	808,510	1,035,277
	2,434,735	3,105,019
Councillors' Pension		
Council	1,489,297	1,441,521
National Fund of Municipal Workers		
Employer	4,732,956	3,452,806
Employee	2,366,479	1,726,402
	7,099,435	5,179,208
Cape Joint Retirement Fund		
Employer	244,884	267,403
Employee	362,195	308,955
	607,079	576,358
SALA Pension Fund		
Employee	188,280	-

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
14. Employee benefit obligations (continued)		
Long Service Bonus Liability		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3,937,000)	(3,491,000)
Non-current liabilities	(3,457,000)	(3,223,000)
Current liabilities	(480,000)	(268,000)
	(3,937,000)	(3,491,000)

Arch Actuarial Consulting company performed the actuarial valuation of the Long Service Award liability as at 30 June 2021.

This obligation relates to the expected outflows of economic benefits associated with paying employees that have completed a cycle of 5 years in the employ of the municipality.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3,491,000	3,208,844
Current service cost	542,000	503,177
Interest cost	252,000	244,439
Benefits paid	(268,000)	(442,551)
Actuarial (gain)/loss	(80,000)	(22,909)
	3,937,000	3,491,000

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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2021

2020

14. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

The following assumptions were used for the Employee benefit Long Service Award Liability calculation as at the 30 June 2021:

The evaluation was based on 215 eligible employees, Earnings-weighted average age of 41 and an Earnings-weighted average past service of 8.5.

The Municipality offers employees long service award for every five years of service completed, from five years of service to 45 years of service, inclusive.

The key financial and demographic assumptions are summarised below:

Discount rate: 9.35%

General earnings inflation rate (long-term): 5.81%

Net effective discount rate: 3.35%

Key Demographic Assumptions

Assumption		Value	
Average retirement age		62.00	
Mortality during employment		SA 85-90	
	Age	Female	Male
	20	9%	9%
	25	8%	8%
	30	6%	6%
	35	5%	5%
	40	5%	5%
Withdrawal from service (sample annual rates)	45	4%	4%
	50	3%	3%
	55	0%	0%

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general earnings inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A two-fold increase and a 50% decrease in the assumed rates of withdrawal from service.

Sensitivity Analysis on the Unfunded Accrued Liability Sensitivity

Assumption	Change	Liability	% change
Central assumptions	-	3,937,000	-
General earnings inflation rate	+1%	4,184,000	6%
	-1%	3,715,000	-6%
	+1%	3,706,000	-6%
Discount rate	-1%	4,198,000	7%
	+2 yrs	4,192,000	6%
Average retirement age	-2 yrs	3,652,000	-7%
	x2	3,033,000	-23%
Withdrawal rates	x0.5	4,570,000	16%

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

14. Employee benefit obligations (continued)

Comparison of Valuation Assumptions

Assumptions	30/06/2021	30/06/2020
Discount rate	9.35%	7.50%
General earnings inflation rate (long-term)	5.81%	4.08%
Net discount rate	3.35%	3.29%
Average retirement age	62.00	62.00
Pre-retirement mortality	SA85-90	SA85-90

15. Other financial liabilities

At amortised cost

Telkom liability	28,800	144,000
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Other financial liability resulted from tablets and computers bought from Telkom over a 24 months period starting from October 2019. 44 computers and 4 tablets were bought at a monthly cost of R200 each.

Non-current liabilities

Telkom liability	-	28,800
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Current liabilities

Telkom liability	28,800	115,200
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16. Provisions

Reconciliation of provisions - 30 June 2021

	Opening Balance	Additions	Total
Landfill site restoration provision	24,561,629	1,581,649	26,143,278

Reconciliation of provisions - 30 June 2020

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Legal proceedings	1,295,000	-	(1,124,112)	(170,888)	-
Landfill site restoration provision	22,657,164	1,904,465	-	-	24,561,629
	23,952,164	1,904,465	(1,124,112)	(170,888)	24,561,629

Environmental rehabilitation provision

The Landfill Rehabilitation Provision consists of once-off costs to be incurred for rehabilitation of the current operational sites. The current non-recurring costs amounted to R17,765,804 (2020: R16,822,623). Rehabilitation costs also include annual monitoring costs. These costs were determined at a CPI rate of 8.25% (2020: 8%) per annum and were discounted to its present value, applying an effective interest rate of 8.25% (2020: 8%) per annum. The useful life of the landfill site was assessed to be 30 years from the date of establishment. Monitoring costs was estimated for the remaining 30 years to closure as well as 30 years subsequent to closure.

The Landfill Rehabilitation Provision was calculated by Ekolaw Consulting as at 30 June 2021.

The risk free rate as per the accounting policy was applied in the 2021 financial year.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
17. Service charges		
Refuse removal	1,103,203	1,079,378
18. Revenue		
Service charges	1,103,203	1,079,378
Rental of facilities and equipment	176,675	155,966
Interest earned on outstanding debtors	893,874	788,679
Licences and permits	3,731,197	1,914,061
Other income	1,699,809	728,145
Interest received - investment	3,245,840	5,325,626
Property rates	6,574,009	6,919,847
Government grants & subsidies	259,423,525	198,746,107
Donation received - COVID-19	55,031	190,161
Fines	86,520	518,520
	276,989,683	216,366,490
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1,103,203	1,079,378
Rental of facilities and equipment	176,675	155,966
Interest earned on outstanding debtors	893,874	788,679
Licences and permits	3,731,197	1,914,061
Other income	1,699,809	728,145
Interest received - investment	3,245,840	5,325,626
	10,850,598	9,991,855
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	6,574,009	6,919,847
Transfer revenue		
Government grant & subsidies	259,423,525	198,746,107
Donation received - COVID-19	55,031	190,161
Fines	86,520	518,520
	266,139,085	206,374,635
19. Other income		
Agricultural fees	100,433	95,284
Auction fees	-	11,348
Cemetery fees	7,468	6,693
Tender fees	487,786	222,916
Sundry income	10,265	30,826
Clearance certificates	914	437
Pound fees	69,459	95,372
Entrance fees	13,762	9,632
Building plan fees	11,321	10,146
Rezoning certificates	457	3,662
Insurance	997,944	241,829
	1,699,809	728,145
20. Interest received		
Interest revenue		
Bank - Interest received	3,245,840	5,325,626

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
21. Property rates		
Rates received		
Property rates	7,230,914	7,724,756
Less: Income forgone	(656,905)	(804,909)
	6,574,009	6,919,847

Valuations

Residential	167,562,500	87,009,000
Commercial	257,595,500	118,181,000
State	225,800,405	55,170,900
Municipal	105,306,500	2,439,000
	756,264,905	262,799,900

Valuations on land and buildings are performed every five years. The last general valuation came into effect on 1 July 2020 by Redemption Estate Valuers. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

General rates of R0.0111267 (2020: R0.0149) for residential and R0.002781675 (2020: R0.003725) for public service infrastructure properties, R0.0136863 (2020: R0.0184) for business, R0.002781675 (2020: R0.003725) for agriculture and R0.0136863 (2020: R0.0184) for government properties and R0.0141831 (2020: R0.01886517) for vacant land. Rebates of R15,000 and (2020: R15,000) are granted to residential property owners and rebates of 20% of market value are granted for state property owners respectively. Public service infrastructure is exempt on the first 30% of the market value.

Rates are levied on an annual basis with the final date for payment being 30 June 2021 (30 June 2020).

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
22. Revenue from Government grants and subsidies		
Operating grants		
Equitable Share	185,114,000	148,281,000
Electrification Grant	24,293,466	16,281,249
Municipal Infrastructure Grant	41,503,598	27,176,093
Finance Municipal Grant	1,700,000	1,700,000
EPWP Grant	3,443,000	2,883,000
Chris Hani District Municipality Grant	2,000,755	1,200,000
Library Grant	1,000,087	399,157
LG SETA	136,835	163,392
Disaster Management - COVID-19	231,784	662,216
	259,423,525	198,746,107

Equitable Share

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

Electrification Grant

Balance unspent at beginning of year	5,374,751	-
Current-year receipts	23,056,000	21,656,000
Conditions met - transferred to revenue	(24,293,467)	(16,281,249)
Grant retained by National Treasury	(2,987,000)	-
	1,150,284	5,374,751

Conditions still to be met - remain liabilities (see note 13).

Municipal Infrastructure Grant

Balance unspent at beginning of year	11,348,907	-
Current-year receipts	52,814,000	38,525,000
Conditions met - transferred to revenue	(41,503,598)	(27,176,093)
	22,659,309	11,348,907

Conditions still to be met - remain liabilities (see note 13).

Finance Management Grant

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

Conditions still to be met - remain liabilities (see note 13).

EPWP Grant

Current-year receipts	3,443,000	2,883,000
Conditions met - transferred to revenue	(3,443,000)	(2,883,000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021 2020

22. Revenue from Government grants and subsidies (continued)

CHDM - SMME support

Current-year receipts	2,000,000	1,200,000
Conditions met - transferred to revenue	(2,000,000)	(1,200,000)

Conditions still to be met - remain liabilities (see note 13).

Library Grant

Balance unspent at beginning of year	300,843	-
Current-year receipts	699,244	700,000
Conditions met - transferred to revenue	(1,000,087)	(399,158)

Conditions still to be met - remain liabilities (see note 13).

LG SETA

Current-year receipts	136,835	163,392
Conditions met - transferred to revenue	(136,835)	(163,392)

Conditions still to be met - remain liabilities (see note 13).

Chris Hani District Municipality - Whistle Blowing Facilities

Balance unspent at beginning of year	41,040	41,040
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Conditions still to be met - remain liabilities (see note 13).

Disaster Management - COVID-19

Balance unspent at beginning of year	231,784	-
Current-year receipts	-	894,000
Conditions met - transferred to revenue	(231,784)	(662,216)

Conditions still to be met - remain liabilities (see note 13).

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act of 2016), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

23. Donations

Donations - COVID-19	55,031	190,161
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This is an amount donated by Senior Manager (R4,981) and CHDM (R50,050) for COVID-19.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021	2020
Figures in Rand		
24. Fines		
Traffic fines	86,520	518,520
The decrease in traffic fines revenue is due to missing traffic fine books.		
25. Employee cost		
Basic	59,831,861	57,335,283
Pension Fund, UIF and Medical Aid - Company Contributions	11,147,637	10,420,673
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	8,973,197	9,097,408
Overtime Payments	1,184,631	1,922,719
Long-service awards	374,810	255,511
Housing Benefits and Allowances	207,811	294,759
Other Employee Related Costs	6,381,471	7,681,974
	88,101,418	87,008,327
Remuneration of Municipal Manager - M Moyo		
Annual Remuneration	849,314	1,114,485
Travel, motor car, accommodation, subsistence and other allowances	417,783	158,411
Contributions to UIF, Medical and Pension Funds	1,813	14,264
	1,268,910	1,287,160
Remuneration of Chief Finance Officer - NF Siwahla		
Annual Remuneration	697,332	722,441
Travel, motor car, accommodation, subsistence and other allowances	351,824	374,114
Contributions to UIF, Medical and Pension Funds	1,813	12,045
	1,050,969	1,108,600
Remuneration of Director: Technical Services - B Tutu		
Annual Remuneration	697,332	722,441
Travel, motor car, accommodation, subsistence and other allowances	338,704	328,820
Contributions to UIF, Medical and Pension Funds	1,813	10,238
	1,037,849	1,061,499
Remuneration of Acting Director: Technical Services - SE Mkhondweni		
Annual Remuneration	466,541	-
Travel, motor car, accommodation, subsistence and other allowances	231,594	-
Contributions to UIF, Medical and Pension Funds	1,813	-
Acting allowance	150,033	-
	849,981	-
SE Mkhondweni was Acting Director: Technical Services from August 2020 to June 2021.		
Remuneration of Director: IPED - Z Xuba		
Annual Remuneration	697,332	722,441
Travel, motor car, accommodation, subsistence and other allowances	348,371	335,278
Contributions to UIF, Medical and Pension Funds	1,813	11,735
	1,047,516	1,069,454

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

25. Employee cost (continued)

Remuneration of Director: Community Services - N Matiwane

Annual Remuneration	668,583	186,123
Travel, motor car, accommodation, subsistence and other allowances	332,215	88,075
Contributions to UIF, Medical and Pension Funds	1,813	2,779
	1,002,611	276,977

Remuneration of Acting Director: Community Services - F Gcora

Acting allowance	14,469	-
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F Gcora was Acting Director: Community Services from December 2020 to January 2021.

Remuneration of Director: Corporate Services - M Siqaza

Annual Remuneration	697,332	298,563
Travel, motor car, accommodation, subsistence and other allowances	359,210	146,597
Contributions to UIF, Medical and Pension Funds	1,813	4,265
	1,058,355	449,425

Remuneration of Director: Corporate Services - L Taleni

Contributions to UIF, Medical and Pension Funds	-	290
Leave encashment	-	28,959
	-	29,249

Remuneration of Director: Community Services- L Kutwana-Gomana

Annual Remuneration	=	162,820
Car Allowance	=	52,381
Contributions to UIF, Medical and Pension Funds	=	17,254
Leave encashment	=	186,927
	-	419,382

L Kutwana-Gomana was Director: Community Services up to August 2019.

Acting Director: Corporate Services -T Songca

Acting allowance	-	16,940
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T Songca was acting Director: Corporate Services from June to September 2019.

Acting Technical Services Manager - Ms Nyandana

Acting Allowance	=	6,235
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Ms Nyandana was acting Technical Services Manager in August 2019.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021 2020

26. Remuneration of councillors

Executive Mayor	874,200	860,914
Speaker	725,901	728,653
Councillors allowances	4,874,887	5,014,128
Councillors' salaries	8,770,189	9,001,876
	15,245,177	15,605,571

In-kind benefits

The Mayor, Speaker, the Chief Whip, IPED Portfolio Head and the Finance Portfolio Head are full-time. The Mayor, Speaker and Chief Whip are provided with offices and secretarial support at the cost of the Council.

The Mayor and Speaker have use of a Council owned vehicle.

Remuneration paid to Councillors can be summarised as follows:

	Salary	Allowance	Total
Mayor	866,965	7,235	874,200
Speaker	513,826	212,075	725,901
Councillors	8,770,189	4,874,887	13,645,076
	10,150,980	5,094,197	15,245,177

27. Depreciation and amortisation

Property, plant and equipment	31,836,684	31,342,494
Investment property	188,180	139,083
Intangible assets	469,097	500,608
	32,493,961	31,982,185

28. Impairment losses

Impairments

Property, plant and equipment	1,857,513	1,467,831
Impairment loss relates to infrastructure assets as well as a vehicle damaged.		

29. Finance costs

Landfill site provision interest	2,018,753	1,812,573
Interest on overdue accounts		338,835
Long-service award interest	252,000	244,439
	2,270,753	2,395,847

30. Hire of equipment

Motor vehicles

Vehicle hire	72,182	72,295
Equipment		
Equipment hire	1,710,057	1,685,276
	1,782,239	1,757,571

Included in the above rentals are operating lease rentals of R54 654 (2020: R47 737).

Refer to Commitments note 40.

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
31. Debt impairment		
Contributions to debt impairment provision	4,139,291	1,969,013
32. Contracted services		
Outsourced Services		
Security Services	8,039,012	7,238,275
Consultants and Professional Services		
Business and Advisory	6,655,385	6,085,263
Legal Cost	2,770,413	1,724,096
Contractors		
Building	548,061	678,188
Email hosting	31,696	31,696
Electricity repairs	61,436	86,331
Greening and Beautification	15,820	24,370
Vehicles	360,551	359,869
Maintenance of Buildings and Facilities	27,900	-
Maintenance of Equipment	2,755,577	2,389,227
Maintenance of roads	239,194	205,342
Maintenance of traffic and street lights	228,276	-
Awareness campaign	59,400	166,807
	21,792,721	18,989,464

Consulting and professional services include:

Valuation roll

Assistance with the preparation of Annual Financial Statements

Consultants and engineering professional fees

Contractors are required to provide services that are not the core business of the Municipality.

33. Transfers and subsidies

Indigent Subsidy and free basic electricity	4,230,726	3,155,342
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This is electricity and solar system and gel stoves that is provided to indigent people by the Municipality.

34. Profit / (loss) on disposal of assets

Property, plant and equipment	1,387,860	(13,865)
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Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
35. Operational costs		
Audit committee	345,845	357,364
Advertising	882,512	1,341,843
Membership fees	1,981,209	792,477
Audit fees	3,910,758	4,732,758
Bank charges	95,304	145,309
Cleaning	244,427	248,101
Stock and material	312,901	231,906
Catering	941,563	661,070
Insurance	2,524,543	1,150,981
Conferences and delegations	155,193	203,629
Employee health & wellness	-	29,850
Fuel & Oil	4,840,520	3,168,964
Postage	5,433	9,407
Printing & Stationery	826,924	352,011
Uniforms and overalls	790,632	117,090
Workmen's Compensation	644,783	325,045
Telephone & communications	2,750,337	3,268,261
Training	1,398,519	937,674
Travel, subsistence & accommodation	4,760,829	5,093,493
Refuse bags and bins	358,018	269,300
Skills development & capacity building	1,508,690	1,493,458
Electricity purchases	1,998,959	1,833,363
Electrification expenses	7,584,232	2,720,224
Disaster support	493,962	586,148
Public participation	689,785	679,031
Licence fees	480,876	744,198
Traditional leaders	252,000	288,000
Agricultural pilot projects	523,997	2,480,805
Ward committee programmes	4,037,500	4,057,900
Small town revitalisation and SMME support	1,600,590	431,020
Animal feed	108,250	136,165
	47,049,091	38,886,845

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36. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

30 June 2021

	Amortised cost	Total
Receivables from exchange transactions	328,132	328,132
Receivables from non exchange transactions	235,526	235,526
Short term deposits (call accounts)	99,656,037	99,656,037
VAT receivable	3,148,936	3,148,936
	103,368,631	103,368,631

30 June 2020

	Amortised cost	Total
Receivables from exchange transactions	306,326	306,326
Receivables from non exchange transactions	1,604,879	1,604,879
Cash and cash equivalents	295,433	295,433
Short term deposits (call accounts)	65,463,821	65,463,821
VAT receivable	2,568,191	2,568,191
	70,238,650	70,238,650

37. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

30 June 2021

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	23,103,720	23,103,720
Payables from non exchange transactions	259,620	259,620
	23,363,340	23,363,340

30 June 2020

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	16,768,071	16,768,071
Payables from non exchange transactions	248,904	248,904
	17,016,975	17,016,975

38. Audit fees

Fees	3,910,758	4,732,758
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39. Cash generated from operations		
Surplus	59,494,653	13,157,538
Adjustments for:		
Depreciation and amortisation	32,493,961	31,982,185
Loss on sale of property, plant and equipment	(1,387,860)	13,865
Interest	(3,245,840)	(5,325,626)
Impairments of property, plant and equipment	1,857,513	1,467,831
Movements in retirement benefit assets and liabilities	446,000	282,162
Other financial liabilities	(115,200)	144,000
Movement in operating lease asset	(3,861)	-
Contributions to provisions	2,018,753	517,581
Transfer of electrification project	7,584,233	2,720,224
Changes in working capital:		
Receivables from exchange transactions	(21,806)	42,426
Receivables from non-exchange transactions	1,369,353	(354,644)
Payables from exchange transactions	6,335,652	(3,095,166)
VAT	(580,745)	(755,157)
Payables from non-exchange transactions	10,716	(146,025)
Unspent conditional grants and receipts	6,553,309	16,056,285
	112,608,831	56,707,479

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40. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Infrastructure	12,280,373	21,501,965
• Electrification	12,869,148	32,381,894
• Other	4,938,766	-
	30,088,287	53,883,859

Total capital commitments

Already contracted for but not provided for	30,088,287	53,883,859
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Authorised operational expenditure

Total commitments

Total commitments

Authorised capital expenditure	30,088,287	53,883,859
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This capital committed expenditure will be financed by government grants and municipal revenue.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	382,952	47,737
- in second to fifth year inclusive	686,233	-
	1,069,185	47,737

Operating lease payments represent rentals payable by the municipality to Konica Minolta for printing equipment. Leases are negotiated for an average term of 36 months where rentals are fixed for three years. No contingent rent is payable. The equipment remains the property of Konica Minolta. The Konica Minolta lease expired during the year.

A new lease agreement was signed with Xerox Eastern Cape in the current year. The inception date of the lease was 1 May 2021. A monthly fee of R27,327 is payable over a period of 36 months on the lease with no escalation fee.

Another lease agreement between First Rand Limited and the municipality was concluded in the 2020 financial year for the cash management solutions. This lease is for a period of 48 months commencing in December 2020. The fixed monthly fee of R4,350 (excluding VAT) is payable by the municipality to the lessor with no escalation fee.

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41. Contingencies

Contingent liabilities

Plaintiff	Reference	Case Number	June 2021	June 2020
Madolo Security Services	(i)	970/2017	3,500,000	3,500,000
Sithilanga Kupa	(ii)	2213/14	1,400,000	1,400,000
Allenby Housing CC	(iii)	3882/13	350,000	350,000
Xoliswa Kula	(iv)	2760/17	2,500,000	2,500,000
Nnite Trading Enterprises	(v)	409/16	95,000	95,000
			7,845,000	7,845,000

i. Madolo Security Services vs Engcobo Local Municipality (Case number 970/17)

Plaintiff is a security company and they are suing the Municipality for R3,500,000 after their contract was terminated due to the fact that the Municipality lost property during their tenure. The Plaintiff revived the matter and it is now before Court heading for trial.

ii. Sithilanga Kupa vs Engcobo Local Municipality (Case number 2213/14)

Plaintiff sustained injuries following a car accident while driving on a road which was officially closed. He is claiming damages against the Municipality to the amount of R1,400,000. The matter is postponed sine die. The matter is now dormant.

iii. Allenby Housing CC vs Engcobo Local Municipality (Case number 3882/13)

Plaintiff is a service provider of mobile houses and is suing the Municipality for the amount due for services rendered to the value of R350,000. They claimed that the Municipality paid their partner and not them. The matter is dormant.

iv. Xoliswa Kula vs Engcobo Local Municipality (Case number 2760/17)

The plaintiff is suing the Municipality for damages of R2,500,000. The plaintiff claims that the Municipality built a gravel road on her property. The case has been postponed sine die. Following our amendment of the plea, Plaintiff seems to have lost interest in the matter.

v. Nnite Trading Enterprises vs Engcobo Local Municipality (Case number 409/16)

The plaintiff is suing the Municipality for damages of R95,000. The plaintiff is suing the Municipality for services rendered. The case is dormant.

Contingent assets

Contingent assets	Reference	Case Number	June 2021	June 2020
Municipal employees	(i)	N/A	310,141	-
			310,141	-

i. Engcobo Local Municipality vs Municipal employees (Case number N/A)

Council resolution was implemented in October whereby the municipal council approved salary harmonisation for permanent employees. An agreement was signed by management and labour union. However, certain employees of the Municipality were not satisfied with the increase as it appeared to have favoured few employees. The Municipal council took a resolution to rescind its resolution and cancel the salary increases. The matter is with the Labour Court and there is probability by the Municipality to claim the increase from the employees.

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42. Related parties

Relationships	
Controlling entity	Department of Cooperative Governance and Traditional Affairs
Close family member of key management	Refer below
Joint venture of key management	None identified
Associate of close family member of key management	None identified
Post employment benefit plan for employees of entity and/or other related parties	Refer to note 14

All Councillors and Employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

For key management and Councillors remuneration refer to notes 25 and 26.

There are no post-employment benefits for key personnel. The long-service bonus awards for other employees are disclosed in note 14.

Suppliers with close family members employed by the municipality

Amounts paid to services providers with related close family members employed by the municipality

Dr Songca - 70,000
(sister to Mr. T.N Songca, an employee of the municipality)

Sabuya Trading Proprietary Limited 19,200 96,950
(Director of the company is a sister to Ms. N Matiwane, an employee of the municipality)

Inyameko Trading 169 Proprietary Limited 566,178 6,356,005
(Director of the company is a brother to Ms. N Matiwane, an employee of the municipality)

Amounts paid to services providers with related audit committee members

Sizanane Property Services - 62,425
(Director of the company is married to N Ntshanga, the audit committee Chairperson of the municipality)

43. Events after the reporting date

There is no event after the reporting date that management is aware of.

44. Fruitless and wasteful expenditure

Opening balance as previously reported	-	119,485
Add: Expenditure identified - current	-	338,835
Less: Amount written off by Council current year	-	(338,835)
Less: Amount written off - prior period	-	(119,485)
Closing balance	-	-

2021

The municipality did not incur any fruitless and wasteful expenditure in the current financial year.

2020

Fruitless expenditure for 2020 relates to interest and penalties from SARS on disallowed invoices for VAT resulted from SARS audit for a period of 5 years from 2013 to 2018 financial year. This was written off by Council in the 2020 financial year.

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45. Irregular expenditure		
Opening balance	15,342,145	36,895,111
Add: Irregular Expenditure - current	7,527,050	3,690,545
Less: Amount written off - current	(10,605,453)	(25,243,511)
Closing balance	12,263,742	15,342,145

- Irregular Expenditure for 2020 financial year comprises of:

An amount of R612 142 relating to prior year award made to a supplier whose tax matters were not in order. The amount has been written off by the Council. An amount of R1 733 399 is for an award made to a supplier who did not submit compulsory MBD 8 form as required by the advert. An amount of R901 027 is for a contract extension made to a supplier for a further one year based on option to renew clause which was included in the bid specification and tender documents. This clause was not included on the advert. Council resolution for contract extension was obtained, however, public participation as required by s116 of MFMA was not done. An amount of R443 977 is for an award made to a supplier without following SCM competitive bidding process.

- Irregular Expenditure for 2021 financial year comprises of:

An amount of R1 630 690 is for a contract extension made to a supplier for a further one year based on an option to renew clause which was included in the bid specification and tender documents. This clause was not included on the advert. Council resolution for contract extension was obtained, however, public participation as required by s116 MFMA was not done. An amount of R1 347 228 is for an award made to a supplier without following SCM competitive bidding process. An amount of R4 549 132 is for an award made to a supplier who did not submit compulsory MBD 8 form as required by the advert.

The closing balance of the irregular expenditure amounting to R12 263 742 emanates from the 2018 financial year as a result of electricity projects that were funded by the INEP Grant. Awards were made using Regulation 32 on the BAC of other organs of state. These awards did not have the SCM practitioner and the BAC committee did not contain at least four senior managers, resulting in the expenditure being classed as irregular. The contracts are currently being investigated by MPAC.

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46. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year subscription / fee	3,910,758	4,732,758
Amount paid - current year	(3,910,758)	(4,732,758)

PAYE and UIF

Current year subscription / fee	12,580,443	12,100,886
Amount paid - current year	(12,580,443)	(12,100,886)

Pension and Medical Aid Deductions

Current year subscription / fee	14,430,173	7,749,398
Amount paid - current year	(14,430,173)	(7,749,398)

VAT

VAT receivable	3,148,936	2,568,191
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All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

There were no Councillors who had arrear accounts outstanding for more than 90 days at 30 June 2021:

Supply chain management regulations: Deviations

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 Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been approved.

Incident

Impractical	2,604,687	2,310,674
Emergency	364,513	200,100
	2,969,200	2,510,774

47. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment

Recoverable amounts of property, plant and equipment

Provision for doubtful debts

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets.

Provisions for doubtful debts.

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48. Budget differences

Material differences between budget and actual amounts

Items with a difference between budget and actual amounts of 10% or more are explained below:

A1: Variance is caused by the debtors that applied for indigent subsidy for refuse they were approved during the financial year, as well as possible overcharges made on service charges.

A2: Variance is caused by some municipal assets which were not rented out due to COVID-19 lockdown restrictions and the fact that some of these assets were still under construction (Sports field).

A3: Variance is caused by the increase in number of outstanding debtors at year end.

A4: Other income includes VAT expected to be recovered. This amount is accounted for in the statement financial position for actuals. The budgeted amount also includes withdrawals from municipal savings for revenue received in prior years.

A5: Less interest was received due to decreased interest rates as a result of COVID-19.

A6: Variance is caused by the revenue forgone (rebates).

A7: The variance is due to the government grants that were unspent by 30 June 2021 therefore they will be rolled over to the 2022 financial year.

A8: Variance is due to COVID-19 donation from a senior manager and from Chris Hani District Municipality.

A9: The variance is due to lack of cooperation from the Municipality's Traffic Department. As a result, less fines were collected in the current financial year.

A10: The variance is due to the increment of senior managers which was not implemented due to the Determination of Upper Limits Gazette that was not received at year end. Furthermore, the decrease of subsistence and travel, overtime and standby allowance costs also contributed to the actual costs being less than the budgeted amount.

A11: The variance is due to the increment of senior managers which was not implemented due to the Determination of Upper Limits Gazette that was not received at year end. Furthermore, the decrease of subsistence and travel also contributed to the actual costs being less than the budgeted amount.

A12: The variance is due to landfill site interest and long service award interest, as well as impairment loss which are budgeted under depreciation and amortisation.

A13: Variance is due to the implementation of cost-cutting measures, resulting in only essential equipment being hired.

A14: Variance is due to the actual provision for impairment raised on sundry debtors.

A15: Variance is due to projects that were not implemented due to non-responsive bidders and they will be rolled over to 2021/22 financial year.

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48. Budget differences (continued)

A16: Variance is due to the fact that the municipality awarded alternative energy bid at less than budgeted for. Furthermore, the municipality had not delivered gel stoves to indigent beneficiaries at year end, as a result, there was no spending on budgeted delivery costs.

A17: Variance is due to projects that were not implemented due to non-responsive bidders and they will be rolled over to 2021/22 financial year.

A18: Variance is caused by provision for bad debts raised on debtors.

A19: VAT receivable is less than the budgeted amount due to less spending on capital budget and operational budget.

A20: Variance is caused by unspent grants.

A21: The actual investment property balance is more than the budgeted amount. This is due to certain investment property being transferred from property, plant and equipment to investment property.

A22: The actual property, plant and equipment balance is more than the budgeted amount. This is because certain items of property, plant and equipment were impaired after physical verification by the municipality. This had an effect on the impairment losses expense as well.

A23: Variance is as a result of increased leave accrual due to increased accumulated leave balances at year end and retentions which were not yet released at year end as they were still within defects period.

A24: Variance is caused by an increase in the current year landfill site as per the expert's report.

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49. New standards and interpretations

49.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">• IGRAP 20: Adjustments to revenue	01 April 2021	The impact of the Standard is not material.
<ul style="list-style-type: none">• GRAP 18: Segment reporting	01 April 2021	The adoption of this Standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

49.2 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 April 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">• GRAP 104 (amended): Financial Instruments	No effective date yet	Unlikely there will be a material impact
<ul style="list-style-type: none">• Guideline: Guideline on Accounting for Landfill Sites	No effective date yet	Unlikely there will be a material impact
<ul style="list-style-type: none">• Directive 7 (revised): The Application of Deemed Cost	01 April 2021	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 20: Related parties	01 April 2021	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 32: Service Concession Arrangements: Grantor	01 April 2021	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 108: Statutory Receivables	01 April 2021	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 109: Accounting by Principals and Agents	01 April 2021	Unlikely there will be a material impact

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50. Impact of COVID-19 pandemic

At the end of March 2020, the COVID-19 virus was declared a pandemic by the World Health Organisation and by the South African Government. South Africa entered into lockdown on the 26th March 2020. COVID-19 had a significant impact on the amounts as disclosed on the Annual Financial Statements. The affected areas are mainly debtors, cash and cash equivalents and capital spending on which the municipality under performed.

Management has considered the impact of COVID-19 and that there have been no material changes in the use of assets that would require a change in the expected useful life of assets.

No material information has come to the attention of management to suggest that there is a going concern issue due to the pandemic. The Annual Financial Statements for the year ended 30 June 2021 have been prepared under the going concern assumption.

Operational expenditure incurred relating to COVID-19 is included on the line item; disaster support, under note 35.

51. Prior-year adjustments

Property, plant and equipment and investment property

Engcobo Local Municipality relocated the previous tenants of ERF136 to two of its owner-occupied properties to pave way for the development of a shopping mall. The properties were accounted for as property, plant and equipment (owner-occupied) instead of investment property. This resulted in property, plant and equipment being overstated and investment property being understated. The error was corrected retrospectively.

Unspent conditional grants and government grants and subsidies

In the previous year, the unspent electrification grant was incorrectly recognised. This resulted in unspent grant being overstated by R414,611 and government grants revenue being understated. The error was corrected retrospectively.

Statement of financial position

2020

	As previously reported	Correction of error	Reclassification	Restated
Property, plant and equipment	423,138,567	-	(1,546,171)	421,592,396
Investment property	6,494,822	-	1,546,171	8,040,993
Unspent conditional grants	(17,711,935)	414,611	-	(17,297,324)
	411,921,454	414,611	-	412,336,065

Statement of financial performance

2020

	As previously reported	Correction of error	Restated
Government grants and subsidies	198,331,496	414,611	198,746,107

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52. Segment information

General information

Identification of segments

The segments were organised based on the type and nature of service delivered by the Municipality. These services are delivered in various municipal departments, which for reporting purposes are allocated to a standardised functional area (guided by mSCOA regulations). Budgets are prepared for each functional area and the budget versus actual amounts are reported on a monthly basis. Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Types of goods and/or services by segment

The Municipality has several departments/functional areas and accordingly the segments were aggregated for reporting purposes as set out below:

Reportable segment	Goods and/or services
Municipal Governance & Administration	Provision of overall governance to other segments of the municipality
Finance & Administration	Provision of financial and administrative services to other segments of the municipality
Economic & Environmental Services	Provision of economic development activities in the municipality
Roads & Infrastructure	Construction and maintenance of roads and infrastructure owned by the municipality
Community Services	Construction and maintenance of halls, cemeteries owned by the municipality
Public Safety	Provision of pound services and public safety to the community

Reporting on segment assets and liabilities

The Municipality has assessed that assets and liabilities associated with each segment is not used by management for decision making purposes, and neither is it being reported on. Assets and liabilities are utilised by management to assess key financial indicators for the Municipality as a whole. Accordingly, the assets and liabilities per segment is not required to be disclosed.

Information about geographical areas

Although the Municipality operates in a number of geographical areas (i.e.wards), the geographical information is not considered relevant to management for decision-making. The goods and services provided to the community throughout the entire municipal area are based on similar tariffs and service standards. Therefore, the Municipality has assessed that it operates in a single geographical area.

Measurement of specific segment information

The accounting policies of the respective segments are the same as those prescribed in the summary of significant accounting policies.

The Municipality had no changes to the structure of its internal organisation in a manner that caused the composition of its reportable segments to change from the prior year.

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52. Segment information (continued)

Segment surplus or deficit

2021

	Municipal Governance & Administration	Finance & Administration	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Revenue from exchange transactions							
Service charges	-	-	-	-	1,103,203	-	1,103,203
Rental of facilities and equipment	-	-	20,377	10,516	145,781	-	176,674
Interest earned on outstanding debtors	-	893,874	-	-	-	-	893,874
Licences and permits	-	-	-	-	-	3,731,197	3,731,197
Other income	-	1,008,210	100,433	513,326	76,927	914	1,699,810
Interest received	-	3,245,840	-	-	-	-	3,245,840
Actuarial gains	-	80,000	-	-	-	-	80,000
Profit on disposal of assets	-	1,387,860	-	-	-	-	1,387,860
Revenue from non exchange transactions							
Property rates	-	6,574,009	-	-	-	-	6,574,009
Government grants and subsidies	185,114,000	1,836,835	2,000,755	65,797,064	4,674,871	-	259,423,525
Donations received	55,031	-	-	-	-	-	55,031
Fines	-	-	-	-	-	86,520	86,520
Total segment revenue	185,169,031	15,026,628	2,121,565	66,320,906	6,000,782	3,818,631	278,457,543
Municipality's revenue							278,457,543
Expenditure							
Employee costs	(15,568,771)	(23,617,107)	(5,464,859)	(17,264,108)	(21,655,250)	(4,531,323)	(88,101,418)
Remuneration of councillors	(15,245,177)	-	-	-	-	-	(15,245,177)
Depreciation and amortisation	-	(30,473,931)	-	-	(2,020,030)	-	(32,493,961)
Impairment losses	-	(1,857,513)	-	-	-	-	(1,857,513)
Finance costs	-	(2,270,753)	-	-	-	-	(2,270,753)
Hire of equipment	(205,102)	(677,618)	(108,180)	(523,613)	(260,276)	(7,450)	(1,782,239)
Debt impairment	-	(4,139,291)	-	-	-	-	(4,139,291)
Contracted services	(2,908,900)	(5,977,768)	(1,357,099)	(2,937,830)	(8,526,826)	(84,298)	(21,792,721)
Transfers and subsidies	-	(4,220,297)	-	-	(10,429)	-	(4,230,726)
Operational costs	(10,168,833)	(17,570,935)	(3,725,145)	(12,994,160)	(2,319,653)	(270,365)	(47,049,091)
Total segment expenditure	(44,096,783)	(90,805,213)	(10,655,283)	(33,719,711)	(34,792,464)	(4,893,436)	(218,962,890)
Total segmental surplus/(deficit)	141,072,248	(75,778,585)	(8,533,718)	32,601,195	(28,791,682)	(1,074,805)	59,494,653

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52. Segment information (continued)

2020

	Municipal Governance & Administration	Finance & Administration	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Revenue from exchange transactions							
Service charges	-	-	-	-	1,079,378	-	1,079,378
Rental of facilities and equipment	-	-	14,094	3,616	138,257	-	155,967
Interest earned on outstanding debtors	-	788,679	-	-	-	-	788,679
Licences and permits	-	-	-	-	-	1,914,061	1,914,061
Other income	-	284,002	95,284	246,357	102,065	437	728,145
Interest received	-	5,325,626	-	-	-	-	5,325,626
Actuarial gains	-	22,909	-	-	-	-	22,909
Revenue from non exchange transactions							
Property rates	-	6,919,848	-	-	-	-	6,919,848
Government grants and subsidies	37,070,000	113,074,392	1,200,000	43,457,343	3,944,373	-	198,746,108
Donations received	190,161	-	-	-	-	-	190,161
Fines	-	-	-	-	-	518,520	518,520
Total segment revenue	37,260,161	126,415,456	1,309,378	43,707,316	5,264,073	2,433,018	216,389,402
Municipality's revenue							216,389,402
Expenditure							
Employee costs	(14,613,610)	(23,774,785)	(6,183,111)	(14,479,903)	(23,395,083)	(4,561,836)	(87,008,328)
Remuneration of councillors	(15,605,572)	-	-	-	-	-	(15,605,572)
Depreciation and amortisation	-	(31,334,371)	-	-	(647,814)	-	(31,982,185)
Impairment losses	-	(1,467,831)	-	-	-	-	(1,467,831)
Finance costs	-	(2,395,847)	-	-	-	-	(2,395,847)
Hire of equipment	(358,635)	(623,449)	(227,511)	(439,680)	(108,297)	-	(1,757,572)
Debt impairment	-	(1,969,013)	-	-	-	-	(1,969,013)
Contracted services	(1,724,096)	(5,238,764)	(1,645,561)	(1,951,555)	(8,340,838)	(88,648)	(18,989,462)
Transfers and subsidies	-	(3,144,912)	-	-	(10,429)	-	(3,155,341)
Operational costs	(8,684,324)	(17,378,687)	(5,021,152)	(5,268,881)	(2,236,849)	(296,955)	(38,886,848)
Loss on disposal of assets	-	(13,865)	-	-	-	-	(13,865)
Total segment expenditure	(40,986,237)	(87,341,524)	(13,077,335)	(22,140,019)	(34,739,310)	(4,947,439)	(203,231,864)
Total segmental surplus/(deficit)	(3,726,076)	39,073,932	(11,767,957)	21,567,297	(29,475,237)	(2,514,421)	13,157,538

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53. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through maintenance of cash balances.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	23,103,720	-	-	-
Unspent conditional grants and receipts	23,850,633	-	-	-
Other financial liabilities	28,800	-	-	-

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	16,768,071	-	-	-
Unspent conditional grants and receipts	17,297,324	-	-	-
Other financial liabilities	115,200	28,800	-	-

Interest rate sensitivity analysis

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

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 counterparty.

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

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

Cash and cash equivalents	99,320,018	65,759,254
Trade and other receivables from exchange transactions	288,571	306,326
Trade and other receivables from non exchange transactions	1,662,193	1,604,879
VAT receivable	2,617,157	2,568,191