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

* See Note 36

General Information

Legal form of entity	The entity functions as a local Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	Sakhisizwe Local Municipality is a South African Category A 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 operations	The principal activities of the municipality are: Provide democratic activities and accountable government Ensure sustainable service delivery to communities Provide social and economic development Provide basic service to the community
Mayoral committee	
Executive Mayor	Clr B. Ntsere
	Clr K. Faku: Speaker
Councillors	Clr N. Radzilane Ponoshe: Exco member Clr N. Magandela: Exco member - Infrastructure and IPED (ANC) Clr N. Stofile : Exco member (Community Services and Social needs) Clr Z. A. Mose: MPAC Chairperson (ANC) Clr N.P. Mkati: (ANC) (Women caucus Chairperson) Clr T. Doda Clr Y. Ndiki (UDM) Clr A. Lande: PR (EFF) Clr M. J. Malungisa: PR (DA) Clr Z. Mbasane: (ANC) Clr M. Ngqayimbana: (ANC) Clr T. Hoza: (ANC) Clr B. E. Ponoshe: (ANC) Clr M. Mxhonywa: (ANC) Clr A. Sondlo: (ANC) Headman Msheqo: Traditional Council Headman Kutuka: Traditional Council Headman M. W. Ma-awu: E Qolombeni: Traditional Counci
Grading of local authority	Category B Grade 1
Accounting Officer	Nomthandazo Mazwayi (Appointed 1 October 2020)
Chief Finance Officer (CFO)	Busisiwe Lubelwana (Appointed 14 June 2021)
Registered office	Erf 5556 Umtata Road Cala 5455
Business address	Erf 5556 Umtata Road Cala

General Information

	5455
Bankers	First National Bank
Auditors	Auditor-General of South Africa
Attorneys	Ntsiki Pakade Attorneys DM Lukhozi Attorneys
Relevant Legislation	Constitution of the Republic of South Africa (Act No. 108 of 1996) Municipal Finance Management Act (Act 56 of 2003) Division of Revenue Act The Income Tax Act (Act No. 58 of 1962) Value Added Tax Act (Act No. 117 of 1998) Municipal Structures Act (Act No. 32 of 2000) Water Service Act (Act No.108 of 1997) Housing Act (Act No. 107 of 1997) Municipal Property Rates Act (Act No. 6 of 2004) Electricity Act (Act No. 41 of 1987) Skills Development Levies Act (Act No. 9 of 1999) Employment Equity Act (Act No. 55 of 1998) Unemployment Insurance Act (Act No. 30 of 1966) Basic Conditions of Employment Act (Act No. 75 of 1997) Municipal System Amendment Act (Act No. 7 of 2011) Municipal Planning and Performance Mnagement Regulations Municipal Supply Chain Management Regulations Municipal Collective Agreements Municipal Budget and Reporting Regulations MFMA Circulars and Regulations

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

GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. 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 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 she 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, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the Accounting Officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

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

The annual financial statements set out on page 8, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2021 and were signed on its behalf by:

Accounting Officer
NC Mazwayi

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2021.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year x number of meetings were held.

Name of member	Number of meetings attended
R Dolonga (Chairperson)	4
M Tshofela	4
A Magwentshu	4
N Hlongwane	3

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA..

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The committee has performed the following key responsibilies:

- Adopted the audit and risk management charter and proposed approved to council;
- Reconfirm the appropriateness of the internal audit charter and methodology;
- Recommended the risk management strategy and policy to council, due to the slow implementation thereof alternative mechanisms were followed by the internal audit manager and a risk register was considered and recommended for approval to council;
- Approved the internal audit plan for the financial year and monitored to the implementation of the plan;
- Evaluated the findings raised by internal and external audit and made recommendations on addressing those matters;
- Performed a review of financial information submitted to the committee and commented specifically on concerns raised based on year-to-date information and accuracy of projections;
- Requested management to reporting on pending litigation, possible contingent liabilities and significant risks;
- Requested management to address the perceived lack of discipline and called specific officials to account for the progress on the audit action plan;
- Liaised with the Auditor-General on matters relating to communication with those charged with governance.

The effectiveness of internal control

The system of internal control was not entirely effective for the year under review. During the year under review, several deficiencies in the system of internal control and/or deviations from there from were reported by the internal auditors and the Auditor-General South Africa. In certain instances, the matters reported previously have not been fully and satisfactorily addressed.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the accounting officer of the municipality during the year under review. It was however noted that…………………………… (e.g. suspense accounts were not cleared on a monthly basis).

Audit Committee Report

Evaluation of annual financial statements

The audit committee has:
- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the accounting officer;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

____

Chairperson of the Audit Committee

Date: ______________________________

Accounting Officer's Report

The Accounting Officer submits her report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in my 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 (deficit) of 228,736,564

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

3. Subsequent events

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

4. Bankers

First National Bank

5. Auditors

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

Accounting Officer
NC Mazwayi

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	3	574,830	805,288
Receivables from exchange transactions	4	5,389,487	6,235,512
Receivables from non-exchange transactions	5	17,862,473	6,157,429
VAT receivable	6	1,321,638	1,340,028
Deposit: Bond Security	7	4,500,000	-
Cash and cash equivalents	8	19,083,357	3,626,878
		48,731,785	**18,165,135**
Non-Current Assets			
Investment property	9	12,272,661	12,277,500
Property, plant and equipment	10	222,035,556	205,085,263
		234,308,217	**217,362,763**
Total Assets		**283,040,002**	**235,527,898**
Liabilities			
Current Liabilities			
Finance lease obligation	11	283,247	260,187
Payables from exchange transactions	12	23,636,019	13,114,460
Consumer deposits	13	83,665	85,463
Employee benefit obligation	14	366,977	368,997
Unspent conditional grants and receipts	15	12,171,682	2,276,123
		36,541,590	**16,105,230**
Non-Current Liabilities			
Finance lease obligation	11	-	286,126
Employee benefit obligation	14	2,770,023	2,941,003
Provisions	16	12,991,825	20,149,569
Chris Hani District Municipality Loan	17	2,000,000	2,000,000
		17,761,848	**25,376,698**
Total Liabilities		**54,303,438**	**41,481,928**
Net Assets		**228,736,564**	**194,045,970**
Accumulated surplus		228,736,564	194,045,970
Total Net Assets		**228,736,564**	**194,045,970**

* See Note 36

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	11,198,401	12,893,132
Other income	20	10,473,791	1,714,124
Interest received - investment	21	4,721,176	5,301,759
Gain on disposal of assets and liabilities		-	71,411
Actuarial gains		358,000	106,448
Total revenue from exchange transactions		**26,751,368**	**20,086,874**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	5,493,710	5,922,020
Transfer revenue			
Government grants & subsidies	23	112,763,066	96,110,643
Total revenue from non-exchange transactions		**118,256,776**	**102,032,663**
Total revenue	18	**145,008,144**	**122,119,537**
Expenditure			
Employee related costs	24	(40,120,789)	(36,122,541)
Remuneration of councillors	25	(7,098,523)	(5,670,964)
Depreciation and amortisation	26	(8,786,130)	(9,128,502)
Impairment of assets	27	-	(28,302,170)
Finance costs	28	(359,883)	(802,995)
Debt Impairment	29	(8,170,419)	(8,246,987)
Bulk purchases	30	(13,429,890)	(11,967,236)
Contracted services	31	(14,451,481)	(14,890,009)
General Expenses	32	(17,900,434)	(16,447,909)
Total expenditure		**(110,317,549)**	**(131,579,313)**
Surplus (deficit) for the year		**34,690,595**	**(9,459,776)**

* See Note 36

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	**203,505,746**	**203,505,746**
Changes in net assets		
Surplus for the year	(9,459,776)	(9,459,776)
Total changes	(9,459,776)	(9,459,776)
Restated* Balance at 01 July 2020	**194,045,969**	**194,045,969**
Changes in net assets		
Surplus for the year	34,690,595	34,690,595
Total changes	34,690,595	34,690,595
Balance at 30 June 2021	**228,736,564**	**228,736,564**

Note(s)

* See Note 36

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Ratepayers and other		14,334,102	16,515,516
Government grants		2,731,685	79,600,826
Interest income		2,189,276	-
Other receipts		-	2,558,728
		19,255,063	98,675,070
Payments			
Employee costs		37,898,135	(41,649,327)
Suppliers		16,110,442	(15,738,445)
Finance costs		(328,145)	-
Other payments		23,946,778	(36,252,545)
		77,627,210	(93,640,317)
Net cash flows from operating activities	34	**96,882,273**	**5,034,753**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(85,316,479)	(18,176,790)
Proceeds from sale of property, plant and equipment	10	3,510,396	124,313
Purchase of other asset 2		(4,500,000)	-
Net cash flows from investing activities		**(86,306,083)**	**(18,052,477)**
Cash flows from financing activities			
Movement in chris hani district municipality loan		-	2,000,000
Finance lease payments		(294,804)	(1,116,201)
Finance lease receipts		-	5,301,759
Other cash item		2,643,193	(2,000,000)
Interest income		2,531,900	(534,998)
Net cash flows from financing activities		**4,880,289**	**3,650,560**
Net increase/(decrease) in cash and cash equivalents		**15,456,479**	**(9,367,164)**
Cash and cash equivalents at the beginning of the year		3,626,878	12,994,042
Cash and cash equivalents at the end of the year	8	**19,083,357**	**3,626,878**

* See Note 36

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	6,087,747	4,839,372	**10,927,119**	11,198,401	**271,282**	
Other income	16,153,208	356,517	**16,509,725**	10,473,791	**(6,035,934)**	
Interest received - investment	5,732,484	-	**5,732,484**	4,721,176	**(1,011,308)**	
Total revenue from exchange transactions	**27,973,439**	**5,195,889**	**33,169,328**	**26,393,368**	**(6,775,960)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	12,552,000	8,234,400	**20,786,400**	5,493,710	**(15,292,690)**	
Transfer revenue						
Government grants & subsidies	97,206,188	24,773,572	**121,979,760**	112,763,066	**(9,216,694)**	
Total revenue from non-exchange transactions	**109,758,188**	**33,007,972**	**142,766,160**	**118,256,776**	**(24,509,384)**	
Total revenue	**137,731,627**	**38,203,861**	**175,935,488**	**144,650,144**	**(31,285,344)**	
Expenditure						
Employee costs	7,879,588	6,890,048	**14,769,636**	(40,120,789)	**(54,890,425)**	
Remuneration of councillors	(12,247,494)	8,014,380	**(4,233,114)**	(7,098,523)	**(2,865,409)**	
Depreciation and amortisation	(2,502,943)	(5,997,057)	**(8,500,000)**	(8,786,130)	**(286,130)**	
Finance costs	(140,510)	(400,006)	**(540,516)**	(359,883)	**180,633**	
Debt Impairment	(1,985,821)	(1,214,500)	**(3,200,321)**	(8,170,419)	**(4,970,098)**	
Bulk purchases	(13,025,440)	(3,317,800)	**(16,343,240)**	(13,429,890)	**2,913,350**	
Contracted Services	(12,671,851)	(4,693,000)	**(17,364,851)**	(14,451,481)	**2,913,370**	
General Expenses	(20,139,392)	(6,383,940)	**(26,523,332)**	(17,900,434)	**8,622,898**	
Total expenditure	**(54,833,863)**	**(7,101,875)**	**(61,935,738)**	**(110,317,549)**	**(48,381,811)**	
Operating surplus	**82,897,764**	**31,101,986**	**113,999,750**	**34,332,595**	**(79,667,155)**	
Actuarial gains/losses	-	-	**-**	358,000	**358,000**	
Surplus before taxation	**82,897,764**	**31,101,986**	**113,999,750**	**34,690,595**	**(79,309,155)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**82,897,764**	**31,101,986**	**113,999,750**	**34,690,595**	**(79,309,155)**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	610,987	1	**610,988**	574,830	**(36,158)**	
Receivables from exchange transactions	23	-	**23**	60,388	**60,365**	
Receivables from non-exchange transactions	50,202,446	5	**50,202,451**	17,862,473	**(32,339,978)**	
VAT receivable	(3,923,313)	(1)	**(3,923,314)**	1,321,638	**5,244,952**	
Employee benefit asset	1	-	**1**	-	**(1)**	
Deposit: Bond Security	-	(1)	**(1)**	4,500,000	**4,500,001**	
Cash and cash equivalents	52,891,354	6,164,268	**59,055,622**	19,083,357	**(39,972,265)**	
	99,781,498	**6,164,272**	**105,945,770**	**43,402,686**	**(62,543,084)**	
Non-Current Assets						
Investment property	12,945,586	-	**12,945,586**	12,272,661	**(672,925)**	
Property, plant and equipment	238,441,849	18,011,396	**256,453,245**	222,035,556	**(34,417,689)**	
Employee benefit asset	2	-	**2**	-	**(2)**	
	251,387,437	**18,011,396**	**269,398,833**	**234,308,217**	**(35,090,616)**	
Total Assets	**351,168,935**	**24,175,668**	**375,344,603**	**277,710,903**	**(97,633,700)**	
Liabilities						
Current Liabilities						
Finance lease obligation	(5)	(4)	**(9)**	283,247	**283,256**	
Payables from exchange transactions	56,836,685	(91,194,679)	**(34,357,994)**	23,636,018	**57,994,012**	
Consumer deposits	1	(1)	**-**	83,665	**83,665**	
Employee benefit obligation	-	-	**-**	366,977	**366,977**	
Unspent conditional grants and receipts	4	(10)	**(6)**	12,171,682	**12,171,688**	
Provisions	1	-	**1**	-	**(1)**	
	56,836,686	**(91,194,694)**	**(34,358,008)**	**36,541,589**	**70,899,597**	
Non-Current Liabilities						
Finance lease obligation	577,937	-	**577,937**	-	**(577,937)**	
Employee benefit obligation	24,540,752	-	**24,540,752**	2,770,023	**(21,770,729)**	
Provisions	(1)	(1)	**(2)**	12,991,825	**12,991,827**	
Chris Hani District Municipality Loan	1	-	**1**	2,000,000	**1,999,999**	
	25,118,689	**(1)**	**25,118,688**	**17,761,848**	**(7,356,840)**	
Total Liabilities	**81,955,375**	**(91,194,695)**	**(9,239,320)**	**54,303,437**	**63,542,757**	
Net Assets	**269,213,560**	**115,370,363**	**384,583,923**	**223,407,466**	**(161,176,457)**	
Reserves						
Accumulated surplus	269,213,560	115,370,363	**384,583,923**	223,407,466	**(161,176,457)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

Cash Flow Statement

Accounting Policies

Figures in Rand	Note(s)	2021	2020

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

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

1.2 Materiality

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

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

Materiality is determined as 1% of total operating expenditure. This materiality is from management’s perspective and does not correlate with the auditor’s materiality.

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

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

The 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 their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

Provision for Landfill Sites:

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.

Provision for Staff leave:

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

Provision for Performance bonuses:

The provision for performance bonuses represents the best estimate of the obligation at yearend and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

Componentisation of Infrastructure assets:

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

Contingent liabilities and Contingent assets:

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is notp probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings 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 in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.

- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets. The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings

Post retirement benefits

The present value of the post retirement obligations and long service awards depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rateexpected rates of return on assets, future salary increases, mortality rates and future pension increases. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Pre-paid electricity estimation:

Pre-paid electricity is recognised as income when the electricity is sold.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

Investment property

The useful lives of investment property 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 economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuators to support the useful life of buildings.

Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9:Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions, specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.4 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.

1.4 Investment property (continued)

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.

The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Cost model

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**
Land:	indefinite
Buildings:	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

Where an 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.

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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.

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	30
Plant and machinery	Straight-line	5 - 10
Furniture and fixtures	Straight-line	5 - 7
Motor vehicles	Straight-line	5
Office equipment	Straight-line	5 - 7
IT equipment	Straight-line	5 - 7
Infrastructure	Straight-line	25 - 50
Community	Straight-line	30
Community assets - Recreational Facilities	Straight-line	20 - 30
Community assets - Security	Straight-line	5
Electricity infrastructure	Straight-line	15 - 50

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.

1.6 Financial instruments

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

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

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.

Accounting Policies

1.6 Financial instruments (continued)

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.

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 municipality under conditions that are potentially favourable to the municipality.

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 municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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

Liquidity risk is the risk encountered by an municipality 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.

1.6 Financial instruments (continued)

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 municipality 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 municipality 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
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	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:

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other deposits	Financial liability measured at amortised cost

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

Initial recognition

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

Accounting Policies

1.6 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality 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.

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality 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 municipality 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 entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-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, an 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 municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality 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 municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

1.6 Financial instruments (continued)

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 municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

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

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.

Financial liabilities

The municipality 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 municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.6 Financial instruments (continued)

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.

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

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

1.7 Statutory receivables

Identification

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

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

Statutory receivables can arise from both exchange and non-exchange transactions.

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.

Statutory receivables are recognised when the related revenue is recognised or when the receivable meets the definition of an asset. .

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.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

1.7 Statutory receivables (continued)

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

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.

1.8 Leases

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

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

Accounting Policies

1.8 Leases (continued)

Finance leases - lessor

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

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

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

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.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset’s fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. The interest rate used is the interest rate implicit in the lease or the bank prime interest rate.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee’s benefit from the use of the leased asset.

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.

1.9 Inventories

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

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

Accounting Policies

1.9 Inventories (continued)

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

Redundant and slow-moving inventories are identified and written down.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

[Specify judgements made]

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Designation

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

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

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

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 tests 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;

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.

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.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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.

Reversal of impairment loss

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

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

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

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.

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.

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

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.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss and is recognised in the Statement of Financial Performance.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information

- Evidence is available of physical damage of an asset
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be significantly worse than expected.

Accounting Policies

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

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.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

Reversal of an impairment loss

The municipality assesses 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.

1.12 Employee benefits

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

Provision for Staff Leave:

- Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

1.12 Employee benefits (continued)

- Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term:
- Accumulated leave is vesting

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

Provision for Performance Bonuses.

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (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.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Post Retirement Defined Benefit Medical Obligations:

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution.

The interest cost of the defined benefit obligation is recognised as finance cost in the Statement of Financial Performance, as it meets the definition of Interest Cost in GRAP 25.

The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements.

Post Retirement Defined Benefit Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality’s obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

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.

Accounting Policies

1.13 Provisions and contingencies (continued)

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

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

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

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

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

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

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

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

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

Measurement

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

1.15 Revenue from exchange transactions (continued)

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 .

1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

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

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

1.17 Comparative figures

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

When the presentation or classification of items in the financial statements are amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

1.18 Unauthorised expenditure

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

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

1.19 Fruitless and wasteful expenditure

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

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

1.20 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.

1.21 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 cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2020/07/01 to 2023/06/30.

1.21 Budget information (continued)

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.

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1’000’000

Explanations for material differences between the final budget amounts and actual amounts are included the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1’000’000.

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

1.22 Related parties

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

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

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

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

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

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

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

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

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm’s length and not on normal commercial terms are disclosed.

1.23 Events after reporting date

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

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

1.23 Events after reporting date (continued)

- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.24 Unspent conditional government grants and receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Figures in Rand	2021	2020

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2020	The impact of the is not material.
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	The impact of the is not material.

3. Inventories

	2021	2020
Crushed Stone - at net realisable value	234,455	376,888
Paving Bricks - at net realisable value	340,375	428,400
	574,830	**805,288**

Inventories recognised as an expense during the year	230,458	202,795

Inventory pledged as security

No Inventory was pledged as security

4. Receivables from exchange transactions

	2021	2020
Other receivables	60,388	-
Consumer debtors - Electricity	2,233,842	3,069,217
Consumer debtors - Refuse	2,443,252	2,747,331
Other trade debtors	409,931	171,696
Other receivables	242,074	247,268
	5,389,487	**6,235,512**

Statutory receivables general information

There were no Trade and other receivables pledged as security.

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary

5. Receivables from non-exchange transactions

	2021	2020
Consumer debtors - Rates	17,862,473	6,157,429

6. VAT receivable

	2021	2020
VAT	1,321,638	1,340,028

7. Deposit: Bond Security

The deposit relates to a security bond payment made to Ntsiki Pakade Attorneys for the case of Mrs Zoliswa Cynthia Morose vs Sakhisizwe Local Municipality

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Figures in Rand	2021	2020

8. Cash and cash equivalents (continued)

	2021	2020
Bank balances	418,027	557,214
Short-term deposits	18,665,330	3,069,664
	19,083,357	**3,626,878**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Cash and cash equivalents pledged as collateral

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 - Primary Bank Account 6207-652-3135	407,995	572,820	240,578	418,027	557,213	244,508
First National Bank MIG 6207-657-7091	8,639,376	728,783	11,175,217	8,639,376	728,783	11,175,217
First National Bank Elliot Housing 6207-745-0056	861,034	1,126	1,125	861,034	1,126	1,125
First National bank Extension 15 6207-740-8203	1,013,615	2,246	2,244	1,013,615	2,247	2,244
First National Bank Extension 13&14 6207-745-1278	2,384,317	1,015	1,014	2,384,317	1,015	1,014
First National Bank FMG 6216 - 538 - 9464	-	24,630	579	-	24,630	579
First National Bank DME 6220-960-0776	75,842	653,448	891	75,842	653,447	891
First National Bank Operating Call Account 6216-534-1943	5,179,299	417,079	8,640	5,179,299	417,079	8,640
First National Bank Business NSTD Call 6280-822-2822	511,885	1,241,376	1,544,775	511,885	1,241,376	1,544,775
Total	**19,073,363**	**3,642,523**	**12,975,063**	**19,083,395**	**3,626,916**	**12,978,993**

9. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	12,325,781	(53,120)	12,272,661	12,325,781	(48,281)	12,277,500

Reconciliation of investment property - 2021

	Opening balance	Depreciation	Total
Investment property	12,277,500	(4,839)	12,272,661

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	12,282,339	(4,839)	12,277,500

Pledged as security

Carrying value of assets pledged as security:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

9. Investment property (continued)

Investment property in the process of being constructed or developed

There is no Investment Property which is in the process of being constructed or developed.

There is no Investment Property that is taking a significantly longer period of time to complete than expected.

There is no Investment Property where construction or development has been halted

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.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The market value of Investment Properties are significantly different from their cost disclosed. It is the policy of the municipality to disclose Investment Property on the cost basis, therefore these properties were not revalued to their relevant market values.

Amounts recognised in surplus or deficit

	2021	2020
Rental revenue from Investment property	235,090	175,000
	235,090	**175,000**

Maintenance of investment property

10. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	23,466,597	-	23,466,597	23,466,597	-	23,466,597
Buildings	49,438,001	(8,315,456)	41,122,545	30,959,618	(2,711,791)	28,247,827
Plant and machinery	21,722,456	(18,701,638)	3,020,818	21,756,356	(18,001,903)	3,754,453
Furniture and fixtures	1,635,976	(1,284,103)	351,873	1,758,999	(1,359,528)	399,471
Motor vehicles	4,691,356	(3,439,965)	1,251,391	4,441,559	(3,305,336)	1,136,223
Office equipment	289,089	(227,152)	61,937	249,519	(216,407)	33,112
IT equipment	2,118,988	(1,255,018)	863,970	2,070,482	(1,374,916)	695,566
Infrastructure	251,348,704	(121,986,919)	129,361,785	253,426,585	(120,703,671)	132,722,914
Community	23,134,487	(599,847)	22,534,640	19,206,056	(4,576,956)	14,629,100
Total	**377,845,654**	**(155,810,098)**	**222,035,556**	**357,335,771**	**(152,250,508)**	**205,085,263**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Depreciation	Total
Land	23,466,597	-	-	-	-	23,466,597
Buildings	28,247,827	5,031,302	9,465,779	(478,526)	(1,143,837)	41,122,545
Plant and machinery	3,754,453	-	623,197	-	(1,356,832)	3,020,818
Furniture and fixtures	399,471	109,988	-	(123,023)	(34,563)	351,873
Motor vehicles	1,136,223	249,797	-	(1,359)	(133,270)	1,251,391
Office equipment	33,112	42,954	41,937	-	(56,066)	61,937
IT equipment	695,566	283,273	38,422	(61,560)	(91,731)	863,970
Infrastructure	132,722,914	19,679,180	35,524,438	(1,857,456)	(56,707,291)	129,361,785
Community	14,629,100	14,226,212	-	(988,472)	(5,332,200)	22,534,640
	205,085,263	**39,622,706**	**45,693,773**	**(3,510,396)**	**(64,855,790)**	**222,035,556**

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Depreciation	Impairment loss	Total
Land	23,466,597	-	-	-	-	-	23,466,597
Buildings	5,575,322	7,198,033	16,051,492	-	(577,020)	-	28,247,827
Plant and machinery	4,873,164	-	-	-	(1,118,711)	-	3,754,453
Furniture and fixtures	438,862	140,309	-	(43,866)	(135,834)	-	399,471
Motor vehicles	1,408,718	-	-	-	(272,495)	-	1,136,223
Office equipment	44,308	-	-	(358)	(10,838)	-	33,112
IT equipment	835,159	59,448	-	(8,678)	(190,363)	-	695,566
Infrastructure	172,464,787	10,966,132	(16,238,624)	-	(6,167,211)	(28,302,170)	132,722,914
Community	15,280,301	-	-	-	(651,201)	-	14,629,100
	224,387,218	**18,363,922**	**(187,132)**	**(52,902)**	**(9,123,673)**	**(28,302,170)**	**205,085,263**

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.

Figures in Rand	2021	2020

11. Finance lease obligation

Minimum lease payments due		
- within one year	294,759	304,418
- in second to fifth year inclusive	-	304,418
	294,759	608,836
less: future finance charges	(11,512)	(60,504)
Present value of minimum lease payments	**283,247**	**548,332**

Present value of minimum lease payments due		
- within one year	283,247	260,187
- in second to fifth year inclusive	-	288,145
	283,247	**548,332**

Non-current liabilities	-	286,126
Current liabilities	283,247	260,187
	283,247	**546,313**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

Market risk

Carrying value of assets of the municipality subject to a finance lease:

Motor vehicles	451,054	1,279,814

It is the municipality's policy to lease certain motor vehicles, plant & equipment under finance leases. In terms of GRAP 13, when office equipment is rented over the major part of its useful life, the relevant lease is deemed a finance lease and the related liability raised and the asset capitalised.

The fair value of finance lease liabilities approximates their carrying amounts.

The average lease term was 5 years and the average effective borrowing rate was prime for the Wesbank motor vehicles and prime plus 4% fixed for the plant & machinery. No escalation clause is contained in the lease agreements. Ownership on the vehicles will transfer to the municipality at the end of the lease term. Ownership for the office equipment remains with the lessor. No security has been offered by the municipality for the leased assets. Bell Equipment stand security for the plant & equipment

Total finance costs paid R31 738 (2020: R497 244)

12. Payables from exchange transactions

Trade payables	9,512,493	7,942,410
Payments received in advanced - contract in process	1,651,419	257,029
Accrued leave pay	2,785,194	3,313,173
Accrued bonus	815,331	797,234
Retentions	1,909,721	570,392
Hall & dam deposits	1,100	1,661
Other payables	6,960,761	232,561
	23,636,019	**13,114,460**

[Only disclose if fair value does not approximate carrying amount]

13. Consumer deposits

Electricity	83,665	85,463

Figures in Rand	2021	2020

13. Consumer deposits (continued)

No guarantees are held in lieu of Electricity Deposits

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

14. Employee benefit obligations

Defined benefit plan

The amounts recognised in the statement of financial position are as follows:

	2021	2020
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(1,173,000)	(1,094,000)
Present value of the defined benefit obligation-partly or wholly funded	(1,964,000)	(2,216,000)
	(3,137,000)	**(3,310,000)**
Non-current liabilities	(2,770,023)	(2,941,003)
Current liabilities	(366,977)	(368,997)
	(3,137,000)	**(3,310,000)**

The Municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid fund, with which the municipality is associated, a member is entitled to continued as a member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-employment benefits are provided to these employees.

The most recent actuarial valuation of plan assets and the present value of the defined obligation were carried out at 30 June 2021 by Mr. C Weiss. Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

Long service award

	2021	2020
Eligible employees at the beginning of the financial year:	137	142
New entries	10	12
Exits	(26)	(17)
	121	**137**

14. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2021	2020
Discount rates used	9.06 %	9.03 %
Expected increase in salaries	6.26 %	4.79 %
Expected pension increases	2.64 %	3.59 %

The basis used to determine the overall expected rate of return on assets is as follow: [provide details]

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 2021: 9.06% (2020: 9.03%) per annum has been used. The corresponding index-linked yield at this term is 2021: 6.26% (2020: 4.79%) These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June.

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post employment health care liability

Expected rate of salary increases:

Average CPI + 1.5% (2019/2020: Feb 2018 - Jan 2019) + 1 per cent)

Impact of COVID - 19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this stage. There is still much uncertainty as to how it will affect mortality in the medium to long term, and what effect treatments and/or vaccines will have.

Once any long-term impacts of COVID-19 on the various valuation parameters becomes more evident, appropriate adjustments to the parameters will be feasible. In the meanwhile, any short-term impacts of actual experience being different to the current long-term assumptions will contribute to actuarial gain/loss items.

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	313,000	334,000
Effect on defined benefit obligation	146,000	155,000

Amounts for the current and previous four years are as follows:

	2021	2020	2019	2018	2017
Defined benefit obligation	1,964,000	2,216,000	2,014,495	1,647,868	1,415,049
Surplus (deficit)	1,964,000	2,216,000	2,014,495	1,647,868	1,415,049
Experience adjustments on plan liabilities	362,000	274,000	161,761	212,957	26,289

Figures in Rand	2021	2020

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Elliot Housing Fund	-	1,110
Municipal Disaster Recovery Grant	2,384,317	1,000
Ext 15 Fund	-	2,213
Intergrated National Eletrification Programme	53,600	641,181
Municipal Infrastructure Grant	8,378,689	-
EPWP	-	52,515
Environmental Affairs: Wattle Removal	861,024	-
Municipal Disaster Relief Grant	-	336,728
Department of Transport Taxi Rank	494,052	1,241,376
	12,171,682	**2,276,123**

16. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Reduction due to re-measurement	Total
Environmental rehabilitation	20,149,569	(7,157,744)	12,991,825

Reconciliation of provisions - 2020

	Opening Balance	Total
Environmental rehabilitation	20,149,569	20,149,569

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

There is no expected reimbursement (from the manufacturer) in respect of this provision.

The restructuring provision relates to redundancy costs incurred on the disposal of. At , approximately -% of the staff had been retrenched. The remainder departed in .

The municipality moved from its previous leased premises. The lease in non-cancellable and the lease continue for the next - years. The municipality cannot find a lessee to occupy the premises.

17. Chris Hani District Municipality Loan

The loan bears reference to a loan given by the Chris Hani District Municipality for financial assistance. The loan is to be paid over three installements, interest-free, with the final installment made on 30 June 2018.

	2,000,000	2,000,000

18. Revenue

Service charges	11,198,401	12,893,132
Other income	10,473,791	1,714,124
Interest received - investment	4,721,176	5,301,759
Property rates	5,493,710	5,922,020
Government grants & subsidies	112,763,066	96,110,643
	144,650,144	**121,941,678**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

18. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	11,198,401	12,893,132
Other income	10,473,791	1,714,124
Interest received - investment	4,721,176	5,301,759
	26,393,368	**19,909,015**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	5,493,710	5,922,020
Transfer revenue		
Government grants & subsidies	112,763,066	96,110,643
	118,256,776	**102,032,663**

19. Service charges

Sale of electricity	9,704,032	10,539,427
Solid waste	4,205,595	4,476,367
Free basic services / rebates	(2,711,226)	(2,122,662)
	11,198,401	**12,893,132**

20. Other income

Traffic department income	1,842,307	958,598
Rates Clearance Certificates	23,261	11,487
Sale of goods and rendering of services	110,953	421,535
Rental income	305,426	189,135
Electricity: Connection & re-connection fees	25,766	1,602
Commission on collection	19,203	70,467
Trading licences	25,888	42,661
SITE Payments	-	18,639
Movement in actuarial valuation	369,000	-
Movement in provision for Landfill site	7,157,744	-
Movement in provision for Leave pay provision	527,979	-
LG Seta Reimbursive allowance	66,264	-
	10,473,791	**1,714,124**

21. Interest Received - Investment

Interest revenue		
Bank	381,132	462,180
Interest charged on trade and other receivables	4,340,044	4,839,579
	4,721,176	**5,301,759**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

22. Property rates

Rates received

Property rates: Residential, Commercial Property, State	5,493,710	5,922,020

Rates are levied annually and monthly. Monthly rates are payable by the 7th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly rates.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

The rates rebate for the current financial year is included in rates revenue received.

Valuations

Residential	763,839,732	763,839,732
Commercial	198,129,025	198,129,025
State	72,418,160	72,418,160
Municipal	174,339,859	174,339,859
Small holdings and farms	338,197,017	338,197,017
Churches	24,080,000	24,080,000
Public Service Infrastructure	203,000	203,000
Institutional	54,509,000	54,509,000
State Trust Land	8,154,220	8,154,220
Vacant	16,326,844	16,326,844
	1,650,196,857	**1,650,196,857**

The breakdown of the valuation roll for the prior year for state was consolidated into Public Service Infrastructure due to a re classification of codes on the new syste.votes when setting up the mSCOA votes in the current financial year.

Figures in Rand	2021	2020

23. Government grants and subsidies

Operating grants

Equitable share	83,788,000	68,713,245
Government grants - Operating	10,808,174	4,886,757
Government grants - Capital	18,166,892	22,510,641
	112,763,066	**96,110,643**

Ext 10

Balance unspent at beginning of year	1,110	1,110
Conditions met - transferred to revenue	(1,110)	-
	-	**1,110**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Municipal Disaster Recovery Grant

Balance unspent at beginning of year	1,000	1,000
Current-year receipts	2,384,317	-
Conditions met - transferred to revenue	(1,000)	-
	2,384,317	**1,000**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Ext 15

Balance unspent at beginning of year	2,213	2,213
Conditions met - transferred to revenue	(2,213)	-
	-	**2,213**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Intergrated National Electrification Programme

Balance unspent at beginning of year	641,181	641,181
Conditions met - transferred to revenue	(587,581)	-
	53,600	**641,181**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Expanded Public Works Programme

Balance unspent at beginning of year	52,515	52,515
Current-year receipts	1,224,000	-
Conditions met - transferred to revenue	(1,276,515)	-
	-	**52,515**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Municipal Disaster Relief Grant

	2021	2020
Balance unspent at beginning of year	336,728	336,728
Conditions met - transferred to revenue	(336,728)	-
	-	**336,728**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Department of Transport Taxi Rank Grant

	2021	2020
Balance unspent at beginning of year	1,241,376	1,544,775
Current-year receipts	5,108,631	1,000,000
Conditions met - transferred to revenue	(5,855,955)	(1,303,399)
	494,052	**1,241,376**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

24. Employee related costs

Basic	24,435,919	21,328,501
Bonus	1,833,678	1,580,500
Medical aid - company contributions	1,996,234	1,394,721
UIF	250,106	201,136
WCA	156,986	801,570
SDL	335,660	198,768
Leave pay provision charge	88,913	90,949
Pension Fund contributions	3,659,337	4,741,765
Travel, motor car, accommodation, subsistence and other allowances	148,921	69,887
Overtime payments	222,878	103,909
Long-service awards	122,270	12,449
Telephone allowances	1,222,946	99,100
Rural allowances	-	391,558
Bargaining Council contributions	384,882	110,265
	34,858,730	**31,125,078**

Remuneration of Municipal Manager

Annual Remuneration	742,633	821,590
Car Allowance	208,260	55,000
Contributions to UIF, Medical and Pension Funds	41,877	153,694
Cellphone Allowance	13,500	-
	1,006,270	**1,030,284**

Remuneration of Chief Financial Officer (Paul Mahlasela)

Annual Remuneration	595,149	789,656
Car Allowance	96,000	144,000
Contributions to UIF, Medical and Pension Funds	76,462	110,700
Cellphone Allowance	8,000	-
	775,611	**1,044,356**

Remuneration of Chief Financial Officer (Busisiwe Lubelwana)

Annual Remuneration	68,223	-
Car Allowance	5,000	-
Contributions to UIF, Medical and Pension Funds	159	-
Cellphone Allowance	1,000	-
	74,382	**-**

Director: Corporate Services

Annual Remuneration	697,854	637,448
Car Allowance	60,000	60,000
Contributions to UIF, Medical and Pension Funds	89,930	106,614
Cellphone Allowance	12,000	-
	859,784	**804,062**

Director: Community Services

Annual Remuneration	697,854	508,089
Car Allowance	60,000	40,000
Contributions to UIF, Medical and Pension Funds	89,930	58,208
Cellphone Allowance	12,000	-

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

24. Employee related costs (continued)

	859,784	**606,297**

Director: Technical Services

Annual Remuneration	875,525	822,391
Car Allowance	60,000	60,000
Contributions to UIF, Medical and Pension Funds	1,903	1,785
Cellphone Allowance	12,000	-
	949,428	**884,176**

Director: IPED

Annual Remuneration	599,360	508,915
Car Allowance	90,000	40,000
Contributions to UIF, Medical and Pension Funds	17,118	79,373
Cellphone Allowance	9,000	-
	715,478	**628,288**

Acting Chief Financial Officer (Zimasile Silinga)

Acting Allowance	21,322	-

25. Remuneration of councillors

Executive Mayor	700,039	563,028
Speaker	658,558	534,328
Councillors	4,161,751	3,726,152
Medical, travel and other allowances	1,578,175	847,456
	7,098,523	**5,670,964**

26. Depreciation and amortisation

Property, plant and equipment	8,781,291	9,123,663
Investment property	4,839	4,839
	8,786,130	**9,128,502**

27. Impairment of assets

Impairments		
Property, plant and equipment Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]	-	28,302,170

[Disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information has otherwise been disclosed:]

The main classes of assets affected by impairment losses are:

The main classes of assets affected by reversals of impairment losses are:

The main events and circumstances that led to the recognition of these impairment losses are as follows:

The main events and circumstances that led to the reversals of these impairment losses are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

28. Finance costs

Post Employment Health	95,000	97,098
Trade and other payables	87,145	261,822
Finance leases	31,738	289,089
Long-service	146,000	154,986
	359,883	**802,995**

Capitalisation rates used during the period were -% on specific borrowings for capital projects and -% being the weighted average cost of funds borrowed generally by the municipality.

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to - (2020: -).

29. Debt impairment

Debt impairment	8,170,419	8,246,987

30. Bulk purchases

Electricity - Eskom	13,429,890	11,967,236

31. Contracted services

Presented previously		
Consultants and Professional Services	10,350,363	9,683,808
Contractors	4,101,118	5,206,201

32. General expenses

Advertising	133,892	8,373
Auditors remuneration	4,706,974	5,242,480
Bank charges	103,427	89,928
Consumables	687,352	249,155
Entertainment	-	578,748
Rent - office equipment	221,154	120,789
Long-service bonus vested costs	313,000	282,914
Insurance	651,958	695,804
Conferences and seminars	205,928	-
IT expenses	1,319,057	344,596
Beautification of towns	2,686,382	3,332,648
Fuel and oil	600,796	539,365
Telephone, postage & fax	1,854,546	1,241,328
Protective clothing	295,800	-
Royalties and license fees	360,612	519,239
Subscriptions and membership fees	623,265	512,880
Electricity purchases	1,118,613	1,120,006
Training	449,739	-
Travel - local	514,761	413,936
Uniforms	-	55,720
Loss on disposal of asset	40,178	-
Remuneration Ward Committees	1,013,000	1,100,000
	17,900,434	**16,447,909**

33. Auditors' remuneration

Fees	4,706,974	5,242,480

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

34. Cash generated from operations

Surplus (deficit)	34,690,595	(9,459,776)
Adjustments for:		
Depreciation	8,786,130	9,128,502
Loss on sale of assets and liabilities	-	(71,411)
Finance costs (non-cash)	-	448,900
Finance costs (cash)	31,738	534,998
Interest income	-	(5,663,565)
Impairment deficit	-	28,302,170
Debt impairment	8,170,419	8,246,987
Movements in retirement benefit assets and liabilities	(173,000)	144,179
Movements in provisions	(7,157,744)	181,944
Unspent conditional grants and receipts	50,899,405	(16,509,817)
Changes in working capital:		
Inventories	230,458	(225,605)
Receivables from exchange transactions	846,025	(11,108,343)
Consumer debtors	(8,170,419)	-
Other receivables from non-exchange transactions	(11,705,044)	(2,290,170)
Payables from exchange transactions	10,521,559	461,237
VAT	18,390	2,176,369
Unspent conditional grants and receipts	9,895,559	-
Consumer deposits	(1,798)	738,154
	96,882,273	**5,034,753**

35. Distributions to owners

Distributions to owners are from capital surpluses.

36. Prior period errors

Statement of Financial Position

Figures in Rand	Note(s)	Previously reported	Adjustment	Re-classification	Restated		Re
Assets							
Current Assets							
Inventories	3	805,288	-	-	805,288		
Receivables from exchange transactions	4	6,440,657	(205,145)	-	6,235,512		
Receivables from non-exchange transactions	5	12,476,914	(6,319,485)	-	6,157,429	[1]	
VAT receivable	6	1,235,657	104,371	-	1,340,028	[2]	
Cash and cash equivalents	8	3,626,878	-	-	3,626,878	[4]	
		24,585,394	**(6,420,259)**	**-**	**18,165,135**		
Non-Current Assets							
Investment property	9	12,277,500	-	-	12,277,500	[5]	
Property, plant and equipment	10	206,280,907	(1,195,644)	-	205,085,263	[6]	
		218,558,407	**(1,195,644)**	**-**	**217,362,763**		
Total Assets		**243,143,801**	**(7,615,903)**	**-**	**235,527,898**		
Liabilities							
Current Liabilities							
Finance lease obligation	11	260,187	-	-	260,187	27	
Payables from exchange transactions	12	18,923,260	(5,808,800)	-	13,114,460	[8]	
Consumer deposits	13	822,819	(737,356)	-	85,463	[10]	
Employee benefit obligation	14	368,997	-	-	368,997		
Unspent conditional grants and receipts	15	1,034,747	1,241,376	-	2,276,123	[11]	
		21,560,010	**(5,454,780)**	**-**	**16,105,230**		
Non-Current Liabilities							
Finance lease obligation	11	288,145	(2,019)	-	286,126		
Employee benefit obligation	14	2,941,003	-	-	2,941,003		
Provisions	16	20,149,569	-	-	20,149,569		
Chris Hani District Municipality Loan	17	-	2,000,000	-	2,000,000		
		23,378,717	**1,997,981**	**-**	**25,376,698**		
Total Liabilities		**44,938,727**	**(3,456,799)**	**-**	**41,481,928**		
Net Assets		**198,205,074**	**(4,159,104)**	**-**	**194,045,970**		
Accumulated surplus		198,205,078	(4,159,108)	-	194,045,970	[13]	

36. Prior period errors (continued)

Statement of Financial Performance

Figures in Rand	Note(s)	Previously reported	Adjustment	Re-classification	Restated	Re
Revenue						
Revenue from exchange transactions						
Service charges	19	13,783,404	(890,272)	-	12,893,132 [14]	
Other income	20	1,714,124	-	-	1,714,124 [17]	
Interest received - investment	21	5,301,759	-	-	5,301,759	
Gain on disposal of assets and liabilities		71,411	-	-	71,411	
Actuarial gains		106,448	-	-	106,448	
Total revenue from exchange transactions		**20,977,146**	**(890,272)**	**-**	**20,086,874**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	22	5,922,020	-	-	5,922,020 [18]	
Transfer revenue						
Government grants & subsidies	23	96,110,643	-	-	96,110,643 [19]	
Total revenue from non-exchange transactions		**102,032,663**	**-**	**-**	**102,032,663**	
Total revenue	18	**123,009,809**	**(890,272)**	**-**	**122,119,537**	
Expenditure						
Employee related costs	24	(36,122,541)	-	-	(36,122,541) [29]	
Remuneration of councillors	25	(5,670,964)	-	-	(5,670,964)	
Depreciation and amortisation	26	(9,128,502)	-	-	(9,128,502) [22]	
Impairment loss/ Reversal of impairments	27	(28,302,170)	-	-	(28,302,170)	
Finance costs	28	(802,995)	-	-	(802,995)	
Debt Impairment	29	(8,032,236)	(214,751)	-	(8,246,987) [28]	
Bulk purchases	30	(14,208,047)	2,240,811	-	(11,967,236) [23]	
Contracted services	31	(14,890,009)	-	-	(14,890,009)	
Transfers and Subsidies		-	-	-	-	
General Expenses	32	(15,278,273)	(1,169,636)	-	(16,447,909) [26]	
Total expenditure		**(132,435,737)**	**856,424**	**-**	**(131,579,313)**	
Deficit for the year		**(124,487,464)**	**(7,091,849)**	**-**	**(9,459,776)**	

[1] Receivables from non-exchange transactions were adjusted by R (6,319,485) which relates to restatement of prior year figures to match the age analysis.

[2] Receivables from exchange transactions were adjusted by R- due to match prior year age analysis.

[5] Investment property was restated by R7,354,435 to address prior year audit issues..

[6] Property, plant and equipment was restated by R(1,195,644) to align financial statements to the updated fixed asset register.

[7] Intangible assets were adjusted by R- to correct amortisation incorrectly calculated

[8] Payables from exchange transactions was adjusted by R(5,808,800) which relates to write-off of the cash suspense account based on the Council resolution. The R16,729,244 relates to reclassification of bonus provision of R3,981,065 and Staff leave of R12,748,180 from payables from non-exchange to payables from exchange.

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*

36. Prior period errors (continued)

[9] Payables from non-change transactions was adjusted by:- and R- which relates to reclassification of bonus provision of R3,981,065 and Staff leave of R12,748,180 which were reclassified to payables from exchange transactions and Consumer deposits of R2,156,191 which were reclassified from payables from non-exchange to consumer deposits.

[10] Consumer deposits of R2,156,191 which were reclassified from payables from non-exchange to consumer deposits..

[12] Provisions was adjusted by R(150,000) which relates to restatement of provision for Landfill site which was restated as a result of the municipality being issued with a licence for the dumping of waste.

[13] Accumulated surplus was adjusted by R(4,159,108) which is the net effect of all the journals in the statement of financial position

[14] Service charges was adjusted by R(890,272) which relate to reversal of incorrect billing which affected various accounts including Bank, creditors and other accounts.

[29] Reclassification of actuarial gains from employee costs to other reportable items R -.

[22] Depreciation was adjusted by R- due to correction of depreciation calculation.

[28] Debt impairment was adjusted by R(214,751) due to change in methodology of impairment.

[26] General expenses was adjusted by R4,972,599 which relates mainly to reclassification of misallocated expenses.

[27] Finance lease obligation was adjusted by R1,123,465 to correct prior period errors on amortisation schedules.

37. Going concern

It should be noted that the Sakhisizwe Local Municipality (SLM) is a government institution, which by nature is in the interest of national government to maintain is operations. SLM receives a material amount of funding from national government, which accounts for a significant portion of the annual budget for operations. This factor contributes towards the assurance of a going concern for the Municipality. Evidently the National allocation alone does not suffice when compared to the rising expenditure. This exerts pressure on the own revenue generated In the assessment of Going Concern attention is drawn to the following financial factors:

1. **Revenue and Grants**

SLM has guaranteed gazetted government grants to fund both Operations and Capital Expenditure for the 2021/22.
- Equitable Share (Operational) - R74 million
- MIG and Other grants (Capital) – R49 million

2. **Own Revenue Projections**

SLM has a projected own revenue to be billed of service charges and revenue from exchange transactions of:

- Own Revenue – R35 million

Evidently the municipality has a low own revenue base is and has a poor collection rate which places pressure on the municipality’s resources. However management has implanted the following measures:

1. Cost cutting measures that are implemented in day to day operations

2. Aggressive application of the debt collection policy in an attempt to improve cash collections.

3. Management has also started an initiative where electricity meters are linked systematically per debtor to other services. This will assist in collection of debt from other services

* See Note 36

Figures in Rand	2021	2020

37. Going concern (continued)

4. Data cleansing exercise to ensure the authenticity and accuracy of accounts for correct billing and collection.

These initiatives will assist in ensuring that the municipality's financial position improves, and continues as a going concern.

Ratio Analysis – 2020/21

Current ratio – Current assets/Current liabilities

R60 173 000/ R32 549 000 = 1:0.8

The current Assets ratio is 1:08 which is within the norm, depicting the ability of the Municipality to cover its current liabilities with it current assets.

Debt Ratio – Total Liabilities/total assets

R241 617 000/ R303 352 000 = 0.80

Total liabilities are 80 percent of Total assets, which is indicative of a weak debt to liability coverage for the municipality.

Although still solvent, Management is attentive to the fact that Liabilities need to be managed in order to ensure the municipality's long term solvency.

Revenue Over expenditure

Revenue disclosed for 2021 - R135 028 000

Expenditure disclosed 2021 - R129 000 000

Revenue exceeds expenditure for the year under review and an accumulated surplus is reported, management notes that the margin is fairly small and if unmonitored can pose a threat to the municipality's ability to continue as a going concern.

Governance Factors.

The Municipality has a full complement of administrative leadership, with emphasis on the existence of the Municipal Manager and Chief Financial Officer.

The combination of management existence, financial management controls in place and the certainty of government gazetted grants to fund operations, in conjunction with municipal revenue enhancement strategic implemented provide assurance that the municipality is able to continue as a going concern.

38. Unauthorised expenditure

Opening balance as previously reported	66,231,783	62,384,321
Opening balance as restated	**66,231,783**	**62,384,321**
Add: Expenditure identified - prior period	-	3,847,462
Closing balance	**66,231,783**	**66,231,783**

39. Fruitless and wasteful expenditure

Opening balance as previously reported	2,939,070	2,499,936
Opening balance as restated	**2,939,070**	**2,499,936**
Add: Expenditure identified - current	221,598	-
Add: Expenditure identified - prior period	-	439,134
Closing balance	**3,160,668**	**2,939,070**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

40. Irregular expenditure

	2021	2020
Opening balance as previously reported	89,196,804	79,871,582
Opening balance as restated	**89,196,804**	**79,871,582**
Add: Irregular Expenditure - current	7,254,407	-
Add: Irregular Expenditure - prior period	-	9,325,222
Closing balance	**96,451,211**	**89,196,804**

41. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

PAYE and UIF

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor T. Doda	180	-	180
Councillor B. Ntsere	44	-	44
Councillor N. Radzilane Ponoshe	452	-	452
Councillor Z. A. Mose	304	-	304
	980	**-**	**980**

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor T. Doda	86	-	86
Councillor N. Radzilane Ponoshe	4,401	-	4,401
Councillor Z. A. Mose	-	172	172
	4,487	**172**	**4,659**

Key management and Councillors receive and pay for services on the same terms and conditions as other rate payers and residents.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

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

Supply chain management regulations

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

Deviations		
July	92,209	3,026
August	360,022	504,880
September	59,167	56,217
October	561,087	63,518
November	59,167	68,370
December	206,760	257,439
January	543,027	13,000
February	728,677	1,158,039
March	320,839	540,774
April	123,063	124,108
May	510,842	347,950
June	179,084	5,841
	3,743,944	**3,143,162**

Electricity distribution losses

Units purchased (Kwh)	8,625,439	8,569,059
Units lost during distribution (Kwh)	1,385,555	1,917,117
Electricity lost during distribution (R)	3,691,317	2,770,147
Percentage lost during distribution (%)	16	22
	13,702,327	**13,256,345**

42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.