



King Sabata Dalindyebo Local Municipality
Annual Financial Statements
for the year ended 30 June 2022

AUDITOR GENERAL
SOUTH AFRICA
30 NOV 2022

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

General Information

Nature of business and principal activities

King Sabata Dalindyebo Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no. 117 of 1998).

Mayoral committee

Executive Mayor

Speaker

Chief Whip

Members of the Mayoral Committee

Cllr. GN Nelani
Cllr. N Siyo- Sokutu
Cllr. B Mlanjeni
Cllr. MS Dudumayo
Cllr. M Bango
Cllr. Z Nokayi
Cllr. YR Gwadiiso
Cllr. Z Madyibi
Cllr. N Sibeko
Cllr. S Nyengane
Cllr. M Marasha
Cllr. Z Gana
Cllr. N Matubatuba
Cllr. N Gwebani
Cllr. R Roeber
Cllr. U Daniso
Cllr. A Msuthu
Cllr. SE Mngeni
Cllr. NG Sidlova
Cllr. M Majeke
Cllr. N Matyebe
Cllr. N Jubeni
Cllr. SN Majikja
Cllr. N Nkathu
Cllr. NG Tshaya
Cllr. B Silinga
Cllr. A Ketse
Cllr. CS Tokwana
Cllr. S Ratshalala
Cllr. SC Mshunqane
Cllr. ZL Siziba
Cllr. B Vuma
Cllr. MJ Msakeni
Cllr. S Dalasile
Cllr. S Mdunyelwa
Cllr. S Mhlaba
Cllr. TT Mtshakazana
Cllr. T Badli
Cllr. L Makhenke
Cllr. LC Molakalaka
Cllr. DM Teti
Cllr. B Nxeve
Cllr. TM Gqiba
Cllr V N S Roji
Cllr A Mgquba
Cllr L M Luvaca
Cllr R Knock

Councillors

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Councillors who are no longer part of the new council after elections

Cllr T G Maqoko
Cllr M Nyoka
Cllr N R Gcingca
Cllr L N Ntlonze
Cllr M T Mtrara
Cllr T Machaea
Cllr T E Mapekuda
Cllr J Voko
Cllr Z D Kutu
Cllr M Mabaso
Cllr S Jadiso
Cllr M Menzelwa
Cllr M Gotyana
Cllr Z Luvantyu
Cllr N Mkontwana
Cllr Z M Gusana
Cllr T Mclmbi
Cllr N Diblokwe
Cllr O Khotso
Cllr M Mrwebi
Cllr E M Fileyo
Cllr Z Ntiziombi
Cllr A Ndzendze
Cllr B Bkani
Cllr X M Mbongwana
Cllr M Mkhotheli
Cllr L Mkonto
Cllr S Sikrenya
Cllr L D Liwani
Cllr B D Bara
Cllr N Gcinindawo
Cllr B Ndlobongela
Cllr B Babbe
Cllr T Mngoma
Cllr T Bhova
Cllr M Buzana
Cllr G N Lusu
Cllr N F Mzimane
Cllr M W Malotana
Cllr B B Gqwetha
Cllr N Ngqongwa
Cllr N Pali
Cllr N Nyangani
Cllr M Mpangele
Cllr M Fukula
Cllr U N V Maighas
Cllr N M Nqwazi
Cllr DM Zozo
Cllr N Mtwana
Cllr N A Sobahle
Cllr L P Zuma
Cllr M A Manzotwandle
Cllr B Malghas
Cllr L A Tshiseka
Cllr N P Ngalo

Grading of local authority

Grade 4

Chief Finance Officer

Mr E Jiholo

Accounting Officer

Mr N Pakade

Registered office

Munitata Building
Sutherland Street
Mithatha

Postal address

Private Bag X5083
Mithatha
5099
5099

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General Information

Bankers

ABSA
FNB

Auditors

Auditor General South Africa
Registered Auditors

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King Sabata Dalindyebo Local Municipality

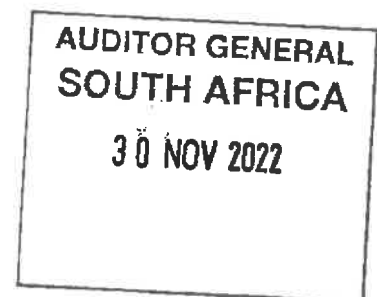
Annual Financial Statements for the year ended 30 June 2022

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

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| | |
|-------------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |
| VAT | Value Added Tax |
| SARS | South African Revenue Services |
| PAYE | Pay As You Earn |



King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and 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 he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

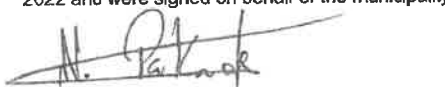
The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable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

The 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 is primarily responsible for the financial affairs of the municipality, they is 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 have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 81, which have been prepared on the going concern basis, were approved by the on 31 August 2022 and were signed on behalf of the municipality by:



Accounting Officer
Mr N Pakade

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

| Figures in Rand | Note(s) | 2022 | 2021 Restated* |
|--|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 2 | 195 947 745 | 140 580 982 |
| Receivables from exchange transactions | 3 | 85 921 409 | 54 122 799 |
| Receivables from non-exchange transactions | 4 | 74 172 610 | 54 445 001 |
| Insurance prepayment | | 1 682 813 | - |
| Cash and cash equivalents | 6 | 16 744 464 | 50 389 717 |
| | | 354 469 041 | 289 538 499 |
| Non-Current Assets | | | |
| Investment property | 7 | 336 204 880 | 333 328 826 |
| Property, plant and equipment | 8 | 2 195 018 898 | 2 159 234 678 |
| Intangible assets | 9 | 1 177 351 | 1 766 026 |
| Heritage assets | 10 | 3 201 000 | 3 201 000 |
| | | 2 635 601 929 | 2 497 530 530 |
| Total Assets | | 2 890 070 970 | 2 797 069 029 |
| Liabilities | | | |
| Current Liabilities | | | |
| Other financial liabilities | 11 | 3 577 177 | 3 718 197 |
| Finance lease obligation | 12 | 25 954 244 | 22 700 750 |
| Payables from exchange transactions | 13 | 405 681 867 | 400 386 969 |
| VAT payable | 5 | 14 493 649 | 6 200 286 |
| Consumer deposits | 14 | 25 671 028 | 24 215 909 |
| Unspent conditional grants and receipts | 15 | 20 044 848 | 24 354 683 |
| Provisions | 16 | 2 372 000 | 2 459 000 |
| | | 497 774 813 | 484 035 794 |
| Non-Current Liabilities | | | |
| Other financial liabilities | 11 | 6 363 968 | 8 418 165 |
| Finance lease obligation | 12 | 6 523 168 | 32 565 167 |
| Provisions | 16 | 53 687 655 | 49 241 085 |
| | | 66 574 791 | 90 224 427 |
| Total Liabilities | | 564 349 604 | 574 260 221 |
| Net Assets | | 2 325 721 366 | 2 222 808 808 |
| Reserves | | | |
| Revaluation reserve | 17 | 527 261 431 | 383 988 031 |
| Self-insurance reserve | 18 | 3 881 786 | 3 834 223 |
| Accumulated surplus | | † 794 578 149 | 1 834 986 554 |
| Total Net Assets | | 2 325 721 366 | 2 222 808 808 |

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* See Note 54

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

| Figures In Rand | Note(s) | 2022 | 2021 Restated* |
|---|-----------|------------------------|------------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 19 | 582 452 446 | 495 689 905 |
| Rental of facilities and equipment | 20 | 18 022 332 | 12 920 166 |
| Licences and permits | 21 | 13 460 587 | 15 002 969 |
| Other income | 22 | 53 023 913 | 46 361 505 |
| Interest revenue | 23 | 23 428 823 | 22 809 170 |
| Fair value adjustments | 24 | 11 055 093 | 11 828 981 |
| Total revenue from exchange transactions | | 681 443 194 | 604 612 696 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 25 | 285 453 763 | 245 824 497 |
| Interest revenue | 23 | 15 528 928 | 20 608 558 |
| Transfer revenue | | | |
| Government grants and subsidies | 26 | 498 598 147 | 539 558 046 |
| Public contributions and donations | 28 | 67 970 | 11 969 770 |
| Fines, penalties and forfeits | 27 | 2 007 221 | 4 148 473 |
| Total revenue from non-exchange transactions | | 801 656 027 | 822 109 344 |
| Total revenue | 30 | 1 483 099 221 | 1 426 722 040 |
| Expenditure | | | |
| Employee related costs | 31 | (535 950 547) | (499 698 677) |
| Remuneration of councillors | 32 | (28 625 984) | (28 255 080) |
| Depreciation and amortisation | 33 | (160 799 224) | (164 836 406) |
| Finance costs | 34 | (18 912 342) | (29 142 084) |
| Lease rentals on operating lease | 29 | (15 423 207) | (7 907 846) |
| Debt Impairment | 35 | (1 586 096) | (4 321 658) |
| Bulk purchases | 36 | (387 728 872) | (322 019 740) |
| Contracted services | 37 | (21 802 686) | (16 720 778) |
| Grants and Subsidies paid | 38 | (64 922 662) | (62 335 156) |
| Inventories write-downs | | (19 489 068) | - |
| Loss on disposal of assets | 8 | (1 086 572) | (1 102 715) |
| General Expenses | 39 | (263 652 925) | (195 201 009) |
| Total expenditure | | (1 519 980 186) | (1 331 541 129) |
| (Deficit) surplus for the year | | (36 880 964) | 95 180 911 |

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* See Note 54

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Annual Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

| Figures in Rand | Revaluation reserve | Insurance reserve | Total reserves | Accumulated surplus | Total net assets |
|---|---------------------|-------------------|--------------------|----------------------|----------------------|
| Balance at 01 July 2021 restated | 383 988 031 | 3 801 185 | 387 789 216 | 1 771 892 663 | 2 159 681 879 |
| Changes in net assets | | | | | |
| Surplus for the year | | | | 95 180 911 | 95 180 911 |
| Movement in self insurance reserve | | 33 038 | 33 038 | | 33 038 |
| Prior year adjustments (Note 54) | | | | (35 614 461) | (35 614 461) |
| Total changes | | 33 038 | 33 038 | 59 566 450 | 59 599 488 |
| Balance at 01 July 2021 restated | 383 988 031 | 3 834 223 | 387 822 254 | 1 831 459 113 | 2 219 281 367 |
| Changes in net assets | | | | | |
| Surplus for the year | | | | (36 880 964) | (36 880 964) |
| Movement in self insurance reserve | | 47 563 | 47 563 | | 47 563 |
| Revaluation of land and buildings | 143 273 400 | | 143 273 400 | | 143 273 400 |
| Total changes | 143 273 400 | 47 563 | 143 320 963 | (36 880 964) | 106 439 999 |
| Balance at 30 June 2022 | 527 261 431 | 3 881 786 | 531 143 217 | 1 794 578 149 | 2 325 721 366 |
| Note(s) | 17 | 18 | | | |

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* See Note 54

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Cash Flow Statement

| Figures in Rand | Note(s) | 2022 | 2021 Restated* |
|---|---------|-----------------------------|-----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Property rates | | 299 949 764 | 210 675 432 |
| Receipts from Customers | | 606 531 305 | 588 429 553 |
| Grants | | 492 073 286 | 548 945 223 |
| Interest income | | 38 957 749 | 43 551 056 |
| | | <u>1 437 512 104</u> | <u>1 391 601 264</u> |
| Payments | | | |
| Employee costs | | (583 837 787) | (528 042 113) |
| Suppliers | | (892 007 877) | (653 201 010) |
| Finance costs | | (17 212 782) | (29 142 064) |
| | | <u>(1 293 058 446)</u> | <u>(1 210 385 187)</u> |
| Net cash flows from operating activities | 41 | <u>144 453 658</u> | <u>181 216 077</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 8 | (153 134 182) | (134 638 210) |
| Proceeds from sale of property, plant and equipment | 8 | 18 993 | 1 090 236 |
| Purchase of other intangible assets | 9 | - | (382 848) |
| | | <u>(153 116 189)</u> | <u>(133 930 822)</u> |
| Net cash flows from investing activities | | <u>(153 116 189)</u> | <u>(133 930 822)</u> |
| Cash flows from financing activities | | | |
| Repayment of other financial liabilities | | (2 195 217) | (2 517 766) |
| Movement in finance lease | | (22 788 505) | (20 560 251) |
| | | <u>(24 983 722)</u> | <u>(23 078 017)</u> |
| Net cash flows from financing activities | | <u>(24 983 722)</u> | <u>(23 078 017)</u> |
| Net decrease in cash and cash equivalents | | <u>(33 645 253)</u> | <u>24 207 238</u> |
| Cash and cash equivalents at the beginning of the year | | 50 389 717 | 26 182 479 |
| Cash and cash equivalents at the end of the year | 8 | <u>16 744 464</u> | <u>50 389 717</u> |

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* See Note 54

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Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|------------------------|---------------------|------------------------|------------------------------------|--|------------------|
| Figures in Rand | | | | | | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 655 987 953 | (24 386 474) | 631 601 479 | 582 452 446 | (69 149 033) | Refer to note 42 |
| Rendering of services | 185 018 | (185 018) | - | - | - | |
| Rental of facilities and equipment | 34 321 790 | (10 862 130) | 23 459 660 | 18 022 332 | (5 437 328) | Refer to note 42 |
| Licences and permits | 23 156 572 | (4 501 408) | 18 655 163 | 13 460 587 | (5 194 576) | Refer to note 42 |
| Other income | 59 429 577 | (20 789 881) | 38 639 696 | 53 023 913 | 14 384 217 | Refer to note 42 |
| Interest received | 61 758 238 | - | 61 758 238 | 23 428 823 | (38 329 415) | Refer to note 42 |
| Total revenue from exchange transactions | 834 819 148 | (60 704 912) | 774 114 236 | 670 388 101 | (103 726 135) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 276 577 483 | 1 028 631 | 277 606 114 | 285 453 763 | 7 847 649 | Refer to note 42 |
| Investment Revenue | - | - | - | 15 528 926 | 15 528 926 | Refer to note 42 |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 512 735 879 | 5 303 824 | 518 039 703 | 498 598 147 | (19 441 556) | Refer to note 42 |
| Public contributions and donations | - | - | - | 67 970 | 67 970 | Refer to note 42 |
| Fines, Penalties and Forfeits | 6 299 368 | (1 208 663) | 5 092 705 | 2 007 221 | (3 085 484) | Refer to note 42 |
| Total revenue from non-exchange transactions | 795 612 730 | 5 125 792 | 800 738 522 | 801 656 027 | 917 505 | |
| Total revenue | 1 630 431 878 | (55 579 120) | 1 574 852 756 | 1 472 044 128 | (102 808 630) | |
| Expenditure | | | | | | |
| Personnel | (552 880 260) | 27 955 855 | (524 924 405) | (535 950 547) | (11 026 142) | Refer to note 42 |
| Remuneration of councillors | (34 225 062) | - | (34 225 062) | (28 625 984) | 5 599 078 | Refer to note 42 |
| Depreciation and amortisation | (147 486 190) | (10 788 248) | (158 272 438) | (160 799 224) | (2 526 786) | Refer to note 42 |
| Finance costs | (16 300 464) | 10 047 542 | (6 252 922) | (18 912 342) | (12 659 420) | Refer to note 42 |
| Lease rentals on operating lease | (15 478 855) | 1 219 542 | (14 259 313) | (15 423 207) | (1 163 894) | Refer to note 42 |
| Debt Impairment | (50 460 002) | 46 460 002 | (4 000 000) | (1 586 096) | 2 413 904 | Refer to note 42 |
| Bulk purchases | (399 186 943) | (13 989 803) | (413 156 746) | (387 728 872) | 25 427 874 | Refer to note 42 |
| Contracted services | (6 444 484) | (11 821 033) | (18 265 527) | (21 802 686) | (3 537 159) | Refer to note 42 |
| Grants and Subsidies Paid | (82 666 370) | 1 718 188 | (80 948 182) | (64 922 662) | 16 025 520 | Refer to note 42 |
| General Expenses | (150 562 451) | 17 883 190 | (132 679 261) | (263 652 925) | (130 973 664) | Refer to note 42 |
| Total expenditure | (1 455 691 091) | 68 707 235 | (1 386 983 856) | (1 499 404 545) | (112 420 689) | |
| Operating deficit | 174 740 787 | 13 128 115 | 187 868 902 | (27 360 417) | (215 229 319) | |
| Fair value adjustments | - | - | - | 11 055 093 | 11 055 093 | Refer to note 42 |
| Inventories losses/write-downs | - | - | - | (19 489 068) | (19 489 068) | |
| Gains/Loss on disposal of non-current assets | 1 814 736 | - | 1 814 736 | (1 086 572) | (2 901 308) | Refer to note 42 |
| | 1 814 736 | - | 1 814 736 | (9 520 547) | (11 335 263) | |
| Deficit before taxation | 176 555 523 | 13 128 115 | 189 683 638 | (36 880 964) | (226 564 602) | |

King Sabata Dalindyebo Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------------|--------------------|------------------------------------|--|-----------|
| Figures in Rand | | | | | | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 176 555 523 | 13 128 115 | 189 683 638 | (36 880 964) | (226 564 602) | |

The accounting policies on pages 12 to 34 and the notes on pages 35 to 84 form an integral part of the annual financial statements.

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Accounting Policies

| Figures in Rand | Note(s) | 2022 | 2021 |
|-----------------|---------|------|------|
|-----------------|---------|------|------|

1. Presentation of Annual Financial Statements

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

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

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

1.1 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 the foreseeable future.

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.

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:

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

Trade receivables and other receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on individual debtor basis, based on historical loss ratios, debtor type and other indicators present at the reporting date that correlate with defaults.

Impairment testing

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

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

Provisions

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

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Employee benefit obligation

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 .

Effective interest rate

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

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships.

Additional information is disclosed in Note 56.

Useful lives of Property, plant and equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets are based on management's judgement as to 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.

1.4 Investment property

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

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised. The cost of self-constructed investment property is the cost at the date of completion

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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1.5 Property, plant and equipment

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

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

| Item | | Average useful life |
|--------------------------------------|---------------|---------------------|
| Land | | Infinite |
| Buildings | Straight line | 5 - 50 years |
| Plant and machinery | Straight line | 5 - 10 years |
| Furniture and fixtures | Straight line | 3 - 5 years |
| Office equipment | Straight line | 5 - 7 years |
| IT equipment | Straight line | 5 - 7 years |
| Computer software | Straight line | 3 - 5 years |
| - Roads and paving | Straight line | 30 years |
| - Access roads | Straight line | 3-10 years |
| - Pedestrian malls | Straight line | 30 years |
| - Electricity | Straight line | 10 - 50 years |
| - Sewerage | Straight line | 15 - 20 years |
| Community | | |
| - Buildings | Straight line | 30 - 50 years |
| - Recreational equipment | Straight line | 20 - 30 years |
| - Security | Straight line | 5 years |
| - Halls | Straight line | 30 years |
| - Libraries | Straight line | 30 - 50 years |
| - Parks and gardens | Straight line | 20 - 30 years |
| - Sport fields | Straight line | 20 - 30 years |
| Other property, plant and equipment | | |
| - Other vehicles | Straight line | 5 years |
| - Other items of plant and equipment | Straight line | 7 - 10 years |
| - Landfill sites | Straight line | 4-30 years |
| - Fire engines | Straight line | 10 - 20 years |
| Bins and containers | Straight line | 5 years |
| Other leased assets | | |
| - Motor vehicles | Straight line | 5-20 years |
| Laboratory equipment | Straight line | 5 - 7 years |
| Specialised vehicles | Straight line | 10 years |
| Heritage assets | | Infinite |
| Cemetery | Straight line | 25 - 30 years |
| Stadium | Straight line | 25 - 30 years |

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's 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.

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

1.6 Intangible assets

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

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

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

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|--------------------------|---------------------|---------------------|
| Computer software, other | Straight-line | 3 - 5 years |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Heritage assets

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

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.7 Heritage assets (continued)

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

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

Transfers

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

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

Derecognition

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

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

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Accounting Policies

1.8 Financial Instruments

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

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

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.

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

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

A financial asset is:

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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.

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

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

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

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

- derivatives;
- combined instruments that are designated at fair value;

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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

Classification

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

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

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

| Class | Category |
|--|--|
| Other financial liabilities - Long term | Financial liability measured at amortised cost |
| Other financial liabilities - short term | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |

1.9 Statutory receivables

Identification

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

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

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

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

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

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.

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Accounting Policies

1.9 Statutory receivables (continued)

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.

1.10 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.11 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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.

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1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.13 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.

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1.13 Impairment of cash-generating assets (continued)

Identification of a potential impairment

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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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1.13 Impairment of cash-generating assets (continued)

Recognition and measurement of cash-generating units

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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1.13 Impairment of cash-generating assets (continued)

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.

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

King Sabata Dalindyebo Local Municipality

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Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP 21 - Impairment of non - cash generating assets.

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

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.

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

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

Redesignation

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

1.15 Share capital / contributed capital

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

1.16 Employee benefits

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

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

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

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

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

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

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Accounting Policies

1.16 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

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

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

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

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

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.16 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

1.17 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

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

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

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

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Accounting Policies

1.18 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.

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.19 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

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

Interest is recognised using the effective interest rate method.

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

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

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

1.20 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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.

Recognition

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

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

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Measurement

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

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

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

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

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.21 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.22 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

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Accounting Policies

1.22 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- it does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.23 Comparative figures

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

1.24 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.

1.25 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.

1.26 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.

1.27 Segment information

A segment is an activity of an entity:

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

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Accounting Policies

1.27 Segment information (continued)

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

Measurement

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

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

1.28 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 2021/07/01 to 2022/06/30.

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

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

1.29 Related parties

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

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

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

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

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

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

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

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

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

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.30 Events after reporting date

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

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

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

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

1.31 Value added tax (VAT)

The municipality accounts for VAT on an accrual basis and is registered with the South African Revenue Services (SARS) for VAT on the payments (cash) basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.32 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

1.33 Unspent conditional grants

This is represented funds unspent at the end of the financial year on grants received from national and provincial government or any other external party that can only be spent for the condition for which it was received. The amount is recognised as a current liability until the conditions of the grant are met or the money is transferred back to the funder.

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. Inventories

| | | |
|---------------------------|--------------------|--------------------|
| Land - Held for transfers | 194 318 595 | 123 196 296 |
| Consumables Stores | 3 036 814 | 2 052 070 |
| Electrical Equipment | 18 081 404 | 15 332 616 |
| | <u>215 436 813</u> | <u>140 580 982</u> |
| Inventories (write-downs) | (19 489 068) | - |
| | <u>195 947 745</u> | <u>140 580 982</u> |

Inventories (material and stores) recognised as an expense during the year

| | | |
|--|-----------|---|
| | 6 201 087 | - |
|--|-----------|---|

In the current year inventories that related to land held for transfers were written down to net realisable value, due to the valuation roll changes of the values of the properties. The amount of the write down expensed was R19 489 068.

Properties transferred to beneficiaries

Carrying value of properties transferred to beneficiaries (Donations/Transfer of assets)

| | | |
|--|------------|---|
| | 24 133 240 | - |
|--|------------|---|

3. Receivables from exchange transactions

| | | |
|--------------------------------|-------------------|-------------------|
| Consumer debtors Other | 7 983 | 85 948 |
| Consumables Sundry Debtors | 5 833 089 | 9 389 396 |
| Consumer debtors - Electricity | 94 150 558 | 76 950 659 |
| Consumer debtors - Refuse | 238 101 616 | 217 294 122 |
| Consumer debtors - Rentals | 141 359 022 | 130 202 127 |
| Provision for Impairment | (413 530 859) | (379 799 453) |
| | <u>65 921 409</u> | <u>54 122 799</u> |

Trade and other receivables pledged as security

The municipality does not have any receivables from exchange transactions that have been pledged as security.

Fair value of trade and other receivables

Trade and other receivables

| | | |
|--|------------|------------|
| | 65 921 409 | 54 229 833 |
|--|------------|------------|

The fair value of trade and other receivables from exchange transactions approximates their carrying amount.

Trade and other receivables past due but not impaired

The normal credit term for the municipality is 30 days. At 30 June 2022, receivables of R 28 200 379 (2021: R 14 024 296) were past due but not impaired.

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

| | | |
|------------------------|------------|-----------|
| 2 months past due | 4 066 920 | 2 514 549 |
| 3 months past due | 2 705 887 | 2 345 349 |
| Over 3 months past due | 21 427 572 | 9 164 398 |

Trade and other receivables impaired

As of 30 June 2022, trade and other receivables of R 413 530 859 (2021: R 379 799 453) were impaired and provided for.

The ageing of these amounts is as follows:

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 3. Receivables from exchange transactions (continued) | | |
| 1 to 3 months | 62 725 029 | 13 788 018 |
| 3 to 6 months | 19 077 082 | 9 400 660 |
| Over 6 months | 224 441 979 | 242 883 884 |
| Penalties and Interest | 107 286 759 | 113 725 781 |
| Included in the above are receivables from exchange transactions as follows: | | |
| Electricity -Ageing | | |
| Current | 34 280 802 | 23 132 500 |
| 31-60 days | 14 417 309 | 11 088 347 |
| 61-90 days | 5 975 002 | 8 311 609 |
| 91-120 days | 4 631 326 | 5 451 613 |
| >120 days | 25 155 150 | 18 262 755 |
| Penalties and Interest | 6 652 807 | 5 249 523 |
| Add: Debtors with credit balances | 3 038 162 | 3 110 449 |
| | 94 150 558 | 74 606 796 |
| Refuse - Ageing | | |
| Current | 4 135 253 | 734 048 |
| 31-60 days | 3 347 605 | 2 541 979 |
| 61-90 days | 2 468 841 | 2 341 249 |
| 91-120 days | 2 247 728 | 2 087 624 |
| >120 days | 164 975 593 | 156 592 884 |
| Penalties and Interest | 61 199 823 | 53 490 985 |
| Add: Debtors with credit balances | (234 333) | 639 582 |
| | 238 140 610 | 218 438 351 |
| Rentals | | |
| Current | 1 382 270 | 9 504 670 |
| 31-60 days | 2 070 743 | 1 320 604 |
| 61-90 days | 1 265 253 | 1 016 889 |
| 91-120 days | 1 076 073 | 1 195 931 |
| >120 days | 83 425 125 | 79 728 333 |
| Penalties and Interest | 55 942 893 | 54 895 274 |
| Add: Debtors with credit balances | 842 958 | 697 683 |
| | 156 005 315 | 148 360 364 |
| Sundry debtors- Ageing | | |
| Current | - | (3 617 842) |
| >120 days | 822 090 | 4 553 174 |
| Add: Debtors with credit balances | (1 037) | - |
| | 821 053 | 835 332 |
| Reconciliation of provision for impairment of trade and other receivables | | |
| Opening balance | 379 799 453 | 380 447 351 |
| Provision for Impairment | 33 731 406 | (847 898) |
| | 413 530 859 | 379 799 453 |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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3. Receivables from exchange transactions (continued)

| Summary of debtors by customer classification | Consumers | Industrial/ Commercial | Government | Total |
|---|-------------------|---------------------------|-------------------|-------------------|
| as at 30 June 2022 | | | | |
| Current | 4 386 345 | 20 512 579 | 5 056 802 | 29 955 726 |
| 31 - 60 days | 4 289 921 | 11 945 923 | 3 599 814 | 19 835 658 |
| 61 - 90 days | 2 977 129 | 6 044 434 | 687 530 | 9 709 093 |
| 91 - 120 days | 2 753 115 | 4 710 285 | 491 726 | 7 955 126 |
| >120 days | 226 792 983 | 50 882 811 | 6 879 078 | 284 554 872 |
| Penalties and interest | 100 596 988 | 21 277 894 | 1 920 762 | 123 795 622 |
| | 341 796 459 | 115 373 926 | 18 635 712 | 475 806 097 |
| Less provision for impairment | (331 449 134) | (82 081 725) | - | (413 530 859) |
| Debtor with Credit balances | 758 304 | 2 841 105 | 46 762 | 3 646 171 |
| | 11 105 629 | 36 133 306 | 18 682 474 | 65 921 409 |

| Summary of debtors by customer classification | Consumers | Industrial/ Commercial | Government | Total |
|---|------------------|---------------------------|-------------------|-------------------|
| as at 30 June 2021 | | | | |
| Current | 7 773 029 | 16 224 991 | 4 151 848 | 28 149 868 |
| 31 - 60 days | 2 899 536 | 11 237 111 | 814 282 | 14 950 929 |
| 61 - 90 days | 2 559 211 | 8 590 000 | 520 535 | 11 669 746 |
| 91 - 120 days | 2 651 914 | 5 729 565 | 363 690 | 8 745 169 |
| >120 days | 200 326 325 | 41 935 669 | 6 580 784 | 248 844 778 |
| Penalties and interest | 93 013 619 | 18 968 446 | 1 653 713 | 113 635 778 |
| | 309 225 634 | 102 685 782 | 14 084 852 | 425 996 268 |
| Less provision for impairment | (310 479 343) | (69 320 109) | - | (379 799 452) |
| Debtors with credit balances | 4 192 509 | 3 029 550 | 703 924 | 7 925 983 |
| | 2 938 800 | 36 395 223 | 14 788 776 | 54 122 799 |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|-------------------|-------------------|
| 4. Receivables from non-exchange transactions | | |
| Impairment | (290 948 698) | (323 094 008) |
| Government grants and subsidies reclassified from unspent | 2 078 301 | - |
| Consumer debtors old balances | (73 977) | 130 437 |
| Other receivables from non-exchange revenue | 1 098 091 | 589 099 |
| Consumer debtors - Rates | 362 018 893 | 376 819 473 |
| | 74 172 610 | 54 445 001 |
| Statutory receivables included in receivables from non-exchange transactions above are as follows: | | |
| Taxes | 362 018 893 | 376 819 473 |
| Consumer debtors- old balances | (73 977) | 130 437 |
| Grants | 2 078 301 | - |
| Impairment | (290 948 698) | (323 094 008) |
| | 73 074 519 | 63 855 902 |
| Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows: | | |
| Other receivables from non-exchange | 1 098 091 | 589 099 |
| | 74 172 610 | 54 445 001 |
| Total receivables from non-exchange transactions | 74 172 610 | 54 445 001 |
| Statutory receivables general information | | |
| Transaction(s) arising from statute | | |
| Included In Receivables from non-exchange transactions are statutory receivables of 2022: R74 172 610 (2021: R54 445 001) | | |
| 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. Property Rates arise from the MUNICIPAL PROPERTY RATES ACT NO. 6 OF 2004 as amended by Municipal Property Rates Amendment Act, No. 29 of 2014. This should be read together with Government Gazette 32061, updated by Government Gazette 38259 dated 28 November 2014. Statutory receivables transaction amounts is determined via the municipalities approved rates policy. | | |
| Impairment of Statutory receivables are assessed based on indicators that exist at each reporting date. These include but not limited to payment history and the customers overall profile. | | |
| Government grants and subsidies relates to the spending on the Small Town Revitalisation grant. The Small Town Revitalisation relates to the Office of The Premier (OTP) grant and the municipality firstly has to submit an invoice for the work done to Office of The Premier before money can be transferred to the municipality. As at 30 June 2022 the work had been done and the money was only transferred after year end by Office of The Premier and hence the receivables is being raised as at year end for the work done. | | |
| Fair value of receivables from non-exchange transactions | | |
| Receivables from non-exchange transactions | 74 172 610 | 54 445 001 |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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| | 2022 | 2021 |
|--|------|------|
|--|------|------|

4. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 64 948 979 (2021: R 46 083 874) were past due but not impaired.

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

| | | |
|------------------------|------------|------------|
| 61-90 days past due | 4 083 141 | 1 109 062 |
| 91-120 days past due | 1 111 700 | 639 968 |
| Over 121 days past due | 47 603 015 | 36 777 561 |
| Penalties and interest | 12 151 123 | 7 557 283 |

Receivables from non-exchange transactions impaired

As of 30 June 2022, other receivables from non-exchange transactions of R 290 948 698 (2021: R323 094 007) were impaired and provided for.

The amount of the provision was R 290 948 698 as of 30 June 2022 (2021: R (323 094 007)).

The ageing of these receivables is as follows:

| | | |
|------------------------|-------------|-------------|
| 1 to 3 months | 28 850 395 | 17 999 843 |
| 3 to 6 months | 10 348 633 | 11 022 531 |
| Over 6 months | 173 582 123 | 210 537 208 |
| Penalties and interest | 78 167 547 | 83 534 425 |

Reconciliation of provision for impairment of receivables from non-exchange transactions

| | | |
|--------------------------|--------------------|--------------------|
| Opening balance | 323 094 007 | 318 124 451 |
| Provision for impairment | (32 145 309) | 4 969 556 |
| | <u>290 948 698</u> | <u>323 094 007</u> |

5. VAT Payable

| | | |
|-----|------------|-----------|
| VAT | 14 493 649 | 6 200 285 |
|-----|------------|-----------|

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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| Figures in Rand | 2022 | 2021 |
|---------------------------------------|-------------------|-------------------|
| 6. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 1 050 | 1 050 |
| Bank balances | 7 739 091 | 25 310 834 |
| Own investments- Short term | 4 490 033 | 4 487 494 |
| Other cash and cash equivalents | 4 514 290 | 20 590 339 |
| | 16 744 464 | 50 389 717 |

Pledged as security

The municipality has ceded an investment equivalent to the principal loan amount plus interest calculated up to September 2003 in favour of the DBSA loan 10875/102.

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. Excess cash is invested with reputable financial institutions with good credit ratings:

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 2022 | 30 June 2021 | 30 June 2020 | 30 June 2022 | 30 June 2021 | 30 June 2020 |
| FNB Call Account 62090323636 | 2 062 677 | 818 252 | 1 735 119 | 2 062 677 | 818 252 | 2 714 957 |
| Electricity | | | | | | |
| ABSA Call Account 4061496604 | 1 135 287 | 1 843 694 | 10 919 767 | 1 135 287 | 1 843 694 | 10 271 210 |
| Electricity | | | | | | |
| ABSA Cheques Account | 684 092 | 419 239 | 958 448 | 684 092 | 419 239 | 958 448 |
| 4048218780 General | | | | | | |
| Self Insurance Reserve (Hollard | 3 881 761 | 3 834 198 | 3 801 159 | 3 881 761 | 3 834 198 | 3 801 159 |
| Insurance Company Account- | | | | | | |
| Experience) | | | | | | |
| ABSA Call Account MTAB | 49 714 | 48 447 | 47 182 | 49 714 | 48 447 | 47 182 |
| 9061932550 | | | | | | |
| Unclaimed Group Life Insurance | 2 279 | 2 847 | 6 600 | 2 279 | 2 847 | 6 637 |
| ABSA 9057846202 | | | | | | |
| ABSA Target Save - Various | 231 308 | 224 364 | 217 583 | 231 308 | 224 364 | 217 583 |
| Accounts | | | | | | |
| investic Bank Invest 1100456924 | 295 546 | 284 732 | 275 321 | 295 546 | 284 732 | 275 321 |
| ABSA Call Account KSD Election | 133 627 | 130 075 | 126 596 | 133 627 | 130 075 | 126 596 |
| 9260118662 | | | | | | |
| ABSA Call Account Mqanduli Milling | - | - | 3 276 | - | - | 3 173 |
| 9118441412 | | | | | | |
| ABSA Call Account Rural Planning | 154 835 | 150 719 | 146 688 | 154 835 | 150 719 | 146 688 |
| 9260110101 | | | | | | |
| ABSA Call Account Organogram | 9 609 | 9 523 | 9 580 | 9 609 | 9 523 | 9 580 |
| Dev 9260110397 | | | | | | |
| ABSA Call Account Mqanduli Middle | 60 382 | 58 843 | 57 306 | 60 382 | 58 843 | 57 306 |
| Income 9095799392 | | | | | | |
| FNB Cheque 62471836513 Main | 3 412 408 | 22 228 069 | 683 111 | 3 844 288 | 22 602 611 | 25 834 |
| FNB Call 62480368345 DOE | 64 879 | 62 735 | 60 871 | 64 879 | 62 735 | 60 871 |
| Electrification | | | | | | |
| FNB Call 62480370031 FMG | 423 086 | 1 120 198 | 1 351 704 | 423 086 | 1 120 198 | 1 351 704 |
| FNB Call Account 62480368838 | 130 395 | 27 567 | 76 897 | 130 395 | 27 567 | 76 897 |
| MIG Account UCCMIP | | | | | | |
| FNB Call Account 62480372863 | 10 666 | 10 313 | 54 849 | 10 666 | 10 313 | 54 849 |
| Library | | | | | | |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | | | | | 2022 | 2021 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 6. Cash and cash equivalents (continued) | | | | | | |
| FNB Call Account 62486520151 Infrastructure Skill Dev | 54 843 | 2 835 936 | 30 799 | 54 843 | 2 835 936 | 30 799 |
| FNB Call Account 62504444639 DOT Taxi Rank | 17 586 | 17 487 | 17 443 | 17 586 | 17 487 | 17 443 |
| FNB Call Account 62523941070 New Brighton | 80 919 | 78 231 | 75 909 | 80 919 | 78 231 | 75 909 |
| FNB Call Account 62523942408 Kei Rail | 3 245 564 | 15 820 071 | 12 500 | 3 245 564 | 15 820 071 | 12 500 |
| FNB Call Account 62559404092 Asset Financing | 79 138 | 141 001 | 93 499 | 79 138 | 141 001 | 93 489 |
| FNB Call Account 62709676582 (DOT Payover Account) | (19 096) | 28 948 | 2 163 834 | (19 096) | 28 948 | 2 163 475 |
| FNB Cheque Account 62810696487 Micros | 31 842 | 600 994 | 314 056 | 31 842 | 600 994 | 304 806 |
| FNB Cheque Account 62856124161 Covid Account | 22 678 | 168 886 | 3 277 000 | 22 678 | 168 886 | 3 277 000 |
| FNB - Money on call Account 62857329364 Demand Side Management | 55 552 | 54 353 | - | 55 552 | 54 353 | - |
| Total | 16 311 577 | 51 019 722 | 26 517 197 | 16 743 457 | 51 394 264 | 26 181 426 |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

7. Investment property

| | 2022 | | | 2021 | | |
|---------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 336 204 880 | - | 336 204 880 | 333 328 826 | - | 333 328 826 |

Reconciliation of investment property - 2022

| | Opening balance | Reclassification to inventory | Fair value adjustments | Total |
|---------------------|-----------------|-------------------------------|------------------------|-------------|
| Investment property | 333 328 826 | (8 179 039) | 11 055 093 | 336 204 880 |

Reconciliation of investment property - 2021

| | Opening balance | Fair value adjustments | Fair value adjustments | Total |
|---------------------|-----------------|------------------------|------------------------|-------------|
| Investment property | 321 499 845 | - | 11 828 981 | 333 328 826 |

Pledged as security

The municipality does not have any investment property that is pledged as security:

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.

Details of valuation

The effective date of the revaluations was Thursday, 30 June 2022. Revaluations were performed by an independent valuer, Mr Zack van der Merwe, and registered as a professional valuer in terms of the Valuers Act (Registration No 4973/1).

The valuation was based on open market value for existing use.

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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8. Property, plant and equipment

| | 2022 | | 2021 | | | |
|-------------------------------------|----------------------|---|----------------------|----------------------|---|----------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 286 558 281 | - | 286 558 281 | 335 472 997 | - | 335 472 997 |
| Buildings | 390 754 890 | (109 895 389) | 280 859 501 | 287 607 774 | (97 911 542) | 189 696 232 |
| Infrastructure | 3 192 486 703 | (2 075 945 003) | 1 116 541 700 | 3 122 473 841 | (1 968 952 402) | 1 153 521 239 |
| Community | 392 789 223 | (136 019 156) | 256 780 067 | 396 324 488 | (126 765 147) | 269 559 341 |
| Other property, plant and equipment | 54 835 442 | (27 403 286) | 27 432 156 | 50 319 648 | (24 282 149) | 26 037 499 |
| Work In Progress | 166 960 686 | - | 166 960 686 | 129 683 912 | - | 129 683 912 |
| Specialised vehicles | 177 446 676 | (117 580 369) | 59 866 307 | 152 315 365 | (97 051 907) | 55 263 458 |
| Total | 4 661 841 901 | (2 466 823 203) | 2 195 018 698 | 4 474 197 625 | (2 314 963 147) | 2 159 234 678 |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

| | Opening balance | Additions | Disposals | Transfers out to Land Inventor | Reclassification to Land Inventor | Revaluations | Transfers | Depreciation | Total |
|-------------------------------------|----------------------|--------------------|--------------------|--------------------------------|-----------------------------------|--------------------|--------------|----------------------|----------------------|
| Land | 335 472 997 | - | - | - | (87 076 500) | 38 181 784 | - | - | 288 558 281 |
| Buildings | 189 696 232 | - | (1 007 843) | - | - | 105 111 616 | - | (12 940 504) | 280 859 501 |
| Infrastructure | 1 153 521 239 | 2 608 971 | - | - | - | - | 67 404 091 | (106 982 601) | 1 116 541 700 |
| Community | 269 559 341 | - | - | - | - | - | 3 826 039 | (16 605 313) | 256 780 067 |
| Other property, plant and equipment | 26 037 499 | 4 656 364 | (97 722) | - | - | - | - | (3 163 985) | 27 432 156 |
| Work In Progress | 128 683 912 | 120 737 636 | - | (12 230 632) | - | - | (71 230 130) | - | 188 960 686 |
| Specialised vehicles | 55 263 458 | 25 131 311 | - | - | - | - | - | (20 508 462) | 59 886 307 |
| | 2 159 234 678 | 163 134 182 | (1 108 565) | (12 230 632) | (87 076 500) | 143 273 400 | - | (160 210 866) | 2 195 018 688 |

Reconciliation of property, plant and equipment - 2021

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|-------------------------------------|----------------------|--------------------|--------------------|---------------|----------------------|----------------------|
| Land | 336 036 497 | - | (563 500) | - | - | 335 472 997 |
| Buildings | 194 875 256 | 8 692 558 | (866 998) | - | (13 004 584) | 189 696 232 |
| Infrastructure | 1 095 036 592 | 5 047 478 | (278 068) | 158 769 526 | (106 043 290) | 1 153 521 239 |
| Community | 277 821 088 | 35 826 | - | 8 083 789 | (16 381 372) | 269 559 341 |
| Other property, plant and equipment | 7 283 084 | 5 570 755 | (56 756) | 16 816 807 | (3 576 371) | 28 037 499 |
| Work In Progress | 198 455 215 | 114 888 819 | - | (184 660 122) | - | 129 683 912 |
| Specialised vehicles | 81 855 742 | 19 925 | (980 130) | - | (25 622 078) | 55 263 458 |
| | 2 192 363 464 | 134 255 362 | (2 756 452) | - | (164 627 696) | 2 159 234 678 |

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8. Property, plant and equipment (continued)

Pledged as security

The municipality has ceded to DBSA all rights, title and interest to residential properties owned by it valued at approximately R12 million in relation to the DBSA loan 13335/201.

Details of Work In Progress

| | |
|-----------------------|--------------------|
| Community Assets | 2 725 829 |
| Infrastructure Assets | 126 958 283 |
| | <u>129 683 912</u> |

WIP Slow moving / Halted projects during the year

| Project Name | Project: Start Date | Project: End Date | Reasons for delays | Expenditure to date |
|--|---------------------|-------------------|--|---------------------|
| The Construction of Mncakathini to Phešheya ko Lwalwa Access Roads | 17/06/2020 | 17/06/2021 | Contractor was on hold due to borrow pit issues, and when the contractor went to site performed | 2 237 682 |
| Mxambule to Jolyweni Access Road | 28/10/2019 | 28/09/2020 | The project was delayed by the poor performance of the contractor, the project is currently under penalties. | 5 003 927 |
| | | | | <u>7 241 609</u> |

Compensation received for losses on property, plant and equipment – included in operating profit.

Assets subject to finance lease

Included under specialised motor vehicles are 87 vehicles which are under finance lease from Wesbank/FNB with a total carrying amount of R32 477 412 (2021: R55 265 917). Refer to Note 13 "Finance Lease Obligation" for additional information.

Revaluations

King Sabata Dalindyebo Local Municipality

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|-----------------|------|------|
|-----------------|------|------|

8. Property, plant and equipment (continued)

Land, buildings are re-valued independently after 3 - 5 years. The last revaluation of assets was June 2022. These assumptions used were based on current market conditions.

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..

Property, plant and equipment in the process of being constructed or developed

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in
Statement of Financial Performance
General expenses (Note 39)

78 540 172

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.

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King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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s. Intangible assets

| | 2022 | | 2021 | | | |
|--------------------------|---|----------------|------------------|---|----------------|-----------|
| Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | |
| Computer software, other | 4 011 825 | (2 834 474) | 1 177 351 | 4 011 825 | (2 245 799) | 1 766 026 |

Reconciliation of Intangible assets - 2022

Computer software, other

| | | | | | |
|-----------------|-----------|--------------|-----------|-------|-----------|
| Opening balance | 1 766 026 | Depreciation | (588 675) | Total | 1 177 351 |
|-----------------|-----------|--------------|-----------|-------|-----------|

Reconciliation of Intangible assets - 2021

Computer software, other

| | | | | | | | |
|-----------------|-----------|-----------|---------|--------------|-----------|-------|-----------|
| Opening balance | 1 589 760 | Additions | 382 848 | Depreciation | (206 582) | Total | 1 766 026 |
|-----------------|-----------|-----------|---------|--------------|-----------|-------|-----------|

Pledged as security

The municipality does not have any intangible assets that are pledged as security.

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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10. Heritage assets

| | 2022 | | 2021 | |
|--------------------|------------------|-------------------------------|----------------|-------------------------------|
| | Cost / Valuation | Accumulated Impairment losses | Carrying value | Cost / Valuation |
| Recreational parks | 3 201 000 | - | 3 201 000 | 3 201 000 |
| | | | | Accumulated Impairment losses |
| | | | | Carrying value |
| | | | | 3 201 000 |

Reconciliation of heritage assets 2022

Recreational parks

| | |
|-----------------|-----------|
| Opening balance | 3 201 000 |
| Total | 3 201 000 |

Reconciliation of heritage assets 2021

Recreational parks

| | |
|-----------------|-----------|
| Opening balance | 3 201 000 |
| Total | 3 201 000 |

King Sabata Dalindyebo Local Municipality

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| Figures in Rand | 2022 | 2021 |
|--|-----------|------------|
| 11. Other financial liabilities | | |
| At amortised cost | | |
| Annuity Loan DBSA | 9 941 145 | 12 138 362 |
| <p>DBSA loan 61001245 was redeemable in March 2018 and borrowing rate is 15%. DBSA loan 61003135 is redeemable in December 2020 and borrowing rate is based on the 6 month JIBAR + Margin rate. DBSA loan 61001048 is redeemable in 2026 and a borrowing rate is 6.75 %.</p> | | |
| At amortised cost | | |
| Annuity Loan PIC | - | - |
| Non-current liabilities | | |
| Designated at amortised cost | 6 363 968 | 8 418 165 |
| Current liabilities | | |
| Designated at amortised cost | 3 577 177 | 3 718 197 |

King Sabata Dalindyebo Local Municipality

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| Figures in Rand | 2022 | 2021 |
|--|-------------------|-------------------|
| 12. Finance lease obligation | | |
| Minimum lease payments due | | |
| - within one year | 28 014 357 | 27 345 008 |
| - in second to fifth year inclusive | 6 889 120 | 34 838 445 |
| | 34 703 477 | 62 183 453 |
| less: future finance charges | (2 226 065) | (6 917 536) |
| Present value of minimum lease payments | 32 477 412 | 55 265 917 |
| | | |
| Present value of minimum lease payments due | | |
| - within one year | 25 954 244 | 22 700 750 |
| - in second to fifth year inclusive | 6 523 168 | 32 565 167 |
| | 32 477 412 | 55 265 917 |
| | | |
| Non-current liabilities | 6 523 168 | 32 565 167 |
| Current liabilities | 25 954 244 | 22 700 750 |
| | 32 477 412 | 55 265 917 |

The Wesbank/FNB motor vehicle finance lease contract was entered into during 2018 financial year. The finance lease period is for 5 years and each vehicle's period of lease begins on the delivery date and expires after 5 years. The finance lease balance is R32 477 412 (2021: R55 265 917) and attracts an average interest rate of 10.850% (2020: 10.850%) per annum.

The above was a facility of R120 million.

13. Payables from exchange transactions

| | | |
|-----------------------------|--------------------|--------------------|
| Trade payables | 250 237 980 | 225 260 045 |
| Whirlprops Creditors | 7 526 292 | 7 519 298 |
| Operating lease smoothing | 21 578 | 21 571 |
| Deferred interest | 20 815 | 20 615 |
| Salaries - Staff Allowances | 6 297 259 | 3 464 668 |
| Income Received In Advance | 3 171 071 | 3 026 852 |
| Salary payovers | 1 744 319 | 25 091 988 |
| Staff Prepaid Houses | 1 075 999 | 1 075 999 |
| Study Loans | 23 866 | 23 866 |
| Retentions | 24 704 357 | 20 329 888 |
| Staff Debtors | - | 332 274 |
| Unknown Deposits | 6 510 526 | 2 012 627 |
| Insurance Claims | 2 500 | 2 500 |
| Other payables | 33 988 483 | 28 816 965 |
| Deposits received | 1 785 894 | 1 340 164 |
| Accrued expense | 15 876 964 | 28 442 304 |
| Accrued Leave Pay and Bonus | 50 659 924 | 51 590 753 |
| Unclaimed Group Life | 2 014 240 | 2 014 582 |
| | 405 661 867 | 400 386 969 |

The fair value of Trade and other payables approximates the carrying amount.

14. Consumer deposits

| | | |
|-------------|------------|------------|
| Electricity | 25 671 028 | 24 215 909 |
|-------------|------------|------------|

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

| Unspent conditional grants and receipts | 2022 | 2021 |
|---|-------------------|-------------------|
| Municipal Infrastructure Grant | - | (1 739 527) |
| Provincial: Department of Housing | 333 652 | 333 652 |
| Provincial: Rural Planning and Survey | 126 943 | 126 943 |
| Provincial: KSD Elections- Road Maintenance | 109 543 | 109 543 |
| Infrastructure Skills Development | - | (168 622) |
| Human Settlements Projects | 11 429 691 | 17 645 675 |
| Provincial : Organogram Development | 294 477 | 294 477 |
| Provincial: MTAB Grant | 514 265 | 514 265 |
| Provincial : Department of Transport- Taxi Rank | 7 236 277 | 7 236 277 |
| | 20 044 848 | 24 354 683 |

Movement during the year

| | | |
|---|-------------------|-------------------|
| Balance at the beginning of the year | 24 354 683 | 14 967 506 |
| Additions during the year | 125 870 296 | 119 141 134 |
| Income recognition during the year | (132 258 432) | (106 265 033) |
| Roll-over disallowed | - | (3 488 924) |
| Grants reclassified to receivables from non-exchange transactions | 2 078 301 | - |
| | 20 044 848 | 24 354 683 |

Grants reclassified to receivables from non-exchange transactions relates to the spending on the Small Town Revitalisation grant. The Small Town Revitalisation relates to the Office of The Premier (OTP) grant and the municipality firstly has to submit an invoice for the work done to Office of The Premier before money can be transferred to the municipality. As at 30 June 2022 the work had been done and the money was only transferred after year end by Office of The Premier and hence the receivables is being raised as at year end.

16. Provisions

Reconciliation of provisions - 2022

| | Opening Balance | Additions | Total |
|---|-------------------|------------------|-------------------|
| Provision for long service awards - Current Portion | 2 459 000 | (87 000) | 2 372 000 |
| Provision for long service awards - Non Current Portion | 18 340 000 | 2 747 000 | 21 087 000 |
| Environmental rehabilitation | 30 901 095 | 1 699 560 | 32 600 655 |
| | 51 700 095 | 4 359 560 | 56 059 655 |

Reconciliation of provisions - 2021

| | Opening Balance | Additions | Total |
|---|-------------------|------------------|-------------------|
| Provision for long service awards - Current Portion | 4 030 000 | (1 571 000) | 2 459 000 |
| Provision for long service awards - Non Current Portion | 17 265 000 | 1 085 000 | 18 340 000 |
| Environmental Rehabilitation | 29 290 138 | 1 610 957 | 30 901 095 |
| | 50 575 138 | 1 124 957 | 51 700 095 |

| | | |
|-------------------------|-------------------|-------------------|
| Non-current liabilities | 53 687 655 | 49 241 095 |
| Current liabilities | 2 372 000 | 2 459 000 |
| | 56 059 655 | 51 700 095 |

Environmental rehabilitation provision

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 16. Provisions (continued) | | |
| <p>The provision relates to the rehabilitation of landfill sites. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, sections 3(14) – (16) and 4 (10) of Government Notice 718 of 3 July 2009, and the landfill permits issued under section 20 of the Environment Conservation Act, Act 73 of 1989, or the waste management licenses issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.</p> <p>The municipality has two landfill sites (Mthatha and Mqanduli landfill site). At the current valuation date, 30 June 2022, the expected life of the Mthatha and Mqanduli landfill sites is projected to be +/-3 and +/- 3 years respectively .</p> <p>The Landfill Rehabilitation Provision was calculated by external valuer Enzokuhle Enterprises.</p> <p>Provision for long service awards</p> <p>Service cost increased the liability by R2 583 000. Interest cost over the valuation period resulted in an increase in liability by R2 660 000. Some of the employees attained milestones during the valuation period and this resulted in bonus payments of R2 459 000 which reduced the accrued liability by the same margin.</p> <p>The average liability has increased by 8% since the last valuation due to:</p> <ul style="list-style-type: none"> - a increase in the average earnings, - This impact was partially offset by an increase in the net discount rate and a decrease in average past service. <p>The total liability has increased by 13% (or R 2,660,000) due to the above, combined with the fact that there are 53 more eligible employees than at the last valuation.</p> | | |
| Provision for long service award | | |
| Opening net liability | 20 799 000 | 21 285 000 |
| Service cost | 2 583 000 | 2 517 000 |
| Interest cost | 1 775 000 | 1 344 000 |
| Actuarial gain/ (loss) | 761 000 | (317 000) |
| Bonus Paid | (2 459 000) | (4 030 000) |
| | 23 459 000 | 20 799 000 |
| 17. Revaluation reserve | | |
| Opening balance | 383 988 031 | 383 988 031 |
| Change during the year | 143 273 400 | - |
| | 527 261 431 | 383 988 031 |
| <p>The revaluation reserve arises out of revaluation of land and buildings.</p> | | |
| 18. Self insurance reserve | | |
| <p>The self-insurance reserve is established to cater for declined or disputed insurance claims.</p> | | |
| Opening balance | 3 834 223 | 3 801 185 |
| Movement in self insurance reserve | 47 563 | 33 038 |
| | 3 881 786 | 3 834 223 |
| 19. Service charges | | |
| Sale of electricity | 503 570 181 | 439 127 277 |
| Refuse removal | 58 882 265 | 56 562 628 |
| | 562 452 446 | 495 689 905 |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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| Figures in Rand | 2022 | 2021 |
|--|-------------------|-------------------|
| 19. Service charges (continued) | | |
| 20. Rental of facilities and equipment | | |
| Premises | | |
| Rental of facilities | 213 442 | 79 171 |
| Rental of Equipment | 1 862 044 | 1 656 870 |
| Premises | 15 946 846 | 11 184 125 |
| | 18 022 332 | 12 920 166 |
| 21. Licences and permits | | |
| Permits - Vending and Hawking | 44 883 | 96 108 |
| Motor vehicle registration fees | 9 156 582 | 9 872 187 |
| Licence fees - Drivers Licence | 3 632 586 | 4 258 047 |
| Licence fees - Business | 474 081 | 776 627 |
| Vehicle Examination R/Worthy Fee | 162 476 | - |
| | 13 460 587 | 15 002 969 |
| 22. Other Income | | |
| Building plan approvals | 1 632 283 | 1 520 540 |
| Call out revenue | 260 615 | 212 673 |
| Disconnection fees | 3 059 594 | 4 278 122 |
| Library fees | 18 510 | 10 104 |
| Department of Transport SLA - Roads | 11 362 908 | 10 072 597 |
| Insurance Claims | 481 845 | 337 674 |
| Meter testing | 2 721 011 | 2 144 294 |
| Sundry income | 820 528 | 522 922 |
| SARS Recoveries | 22 810 120 | - |
| Fire levy and other fees earned | 9 856 499 | 9 689 906 |
| Printing and stationery recoveries | - | 13 454 |
| Amatola Water Board | - | 17 559 219 |
| | 53 023 913 | 46 361 505 |
| 23. Interest revenue | | |
| Interest revenue | | |
| Interest from investments and bank | 1 062 816 | 1 361 235 |
| Interest charged on receivables from exchange transactions | 22 366 007 | 21 447 935 |
| Interest charged on receivables from non exchange transactions | 15 528 926 | 20 608 558 |
| | 38 957 749 | 43 417 728 |
| 24. Fair value adjustments | | |
| Investment property (Fair value model) | 11 055 093 | 11 828 981 |
| 25. Property rates | | |
| Rates received | | |
| State | 100 064 372 | 83 022 102 |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---------------------------------------|--------------------|--------------------|
| 25. Property rates (continued) | | |
| Residential | 74 146 072 | 56 448 658 |
| Commercial | 110 997 987 | 106 175 079 |
| Municipal - parking | 245 332 | 178 658 |
| | 285 453 763 | 246 824 497 |

Valuations

| | | |
|---------------------------------------|-----------------------|-----------------------|
| Residential | 8 600 625 000 | 7 099 007 000 |
| Commercial | 6 710 320 000 | 6 244 511 600 |
| State | 3 703 110 000 | 2 781 171 000 |
| Municipal | 1 982 130 000 | 1 231 096 000 |
| Small holdings, farms and agriculture | 9 160 000 | 5 033 000 |
| Places of public worship | 173 380 000 | 216 305 000 |
| Vacant Land | 291 740 000 | 1 078 652 500 |
| Public Benefit organisation | 223 830 000 | 178 146 000 |
| | 21 694 295 000 | 18 831 922 100 |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2021. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The next general valuation will come into effect in July 2023 due to the previous extension that were granted.

26. Government grants and subsidies

Operating grants

| | | |
|-----------------------------------|--------------------|--------------------|
| Equitable share | 365 575 000 | 427 510 644 |
| VAT Operational | 309 070 | 264 832 |
| Library Grant | 1 750 000 | 1 750 000 |
| Expanded Public Program Grant | 3 784 000 | 3 610 176 |
| SETA Grant | 764 715 | - |
| Various grants | - | 2 173 913 |
| MIG | 3 958 942 | 4 479 717 |
| FMG | 2 489 400 | 2 429 509 |
| Infrastructure Skills Development | 6 184 907 | 5 405 558 |
| | 383 796 034 | 447 624 350 |

Capital grants

| | | |
|---------------------------|--------------------|--------------------|
| MIG | 73 206 534 | 72 499 027 |
| VAT Capital | 14 308 061 | 9 901 209 |
| Small Town Revitalisation | 12 960 424 | - |
| Human Settlement | 14 329 094 | 8 048 533 |
| DOE Grant | - | 1 484 927 |
| | 114 802 113 | 91 933 696 |
| | 498 598 147 | 539 558 046 |

Conditional and Unconditional

Included in above are the following grants and subsidies received:

| | | |
|-------------------------------------|-------------|-------------|
| Conditional grants received | - | - |
| Various conditional grants received | 105 447 592 | 101 881 361 |
| VAT Operational | 309 070 | 264 832 |

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| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 26. Government grants and subsidies (continued) | | |
| VAT Capital | 14 306 061 | 9 901 209 |
| Unconditional grants received | | |
| Equitable share | 365 575 000 | 427 510 644 |
| Small town revitalisation | 12 960 424 | - |
| | 498 598 147 | 539 555 046 |
| Equitable Share | | |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. | | |
| All registered indigents receive a monthly subsidy of R 10 222 330 - (2021: R10 222 330 -), which is funded from the grant. | | |
| Human Settlements ISUP | | |
| Balance unspent at beginning of year | 17 645 675 | 3 379 074 |
| Current-year receipts | 8 113 109 | 22 315 134 |
| Conditions met - transferred to revenue | (14 329 093) | (8 048 533) |
| | 11 429 691 | 17 645 675 |
| Conditions still to be met - remain liabilities (see note15). | | |
| Electricity Demand Site Management | | |
| Balance unspent at beginning of year | - | 32 394 |
| Current-year receipts | - | - |
| Other | - | (32 394) |
| | - | - |
| Conditions still to be met - remain liabilities (see note15). | | |
| Provincial: MTAB Grant | | |
| Balance unspent at beginning of year | 514 265 | 514 265 |
| Current-year receipts | - | - |
| | 514 265 | 514 265 |
| Conditions still to be met - remain liabilities (see note15). | | |
| Municipal Infrastructure Grant | | |
| Balance unspent at beginning of year | (1 739 527) | (384 631) |
| Current-year receipts | 91 267 000 | 84 641 000 |
| Conditions met - transferred to revenue | (89 527 473) | (85 995 896) |
| | - | (1 739 527) |
| Conditions still to be met - remain liabilities (see note15). | | |
| National: Financial Management Grant | | |
| Balance unspent at beginning of year | - | 1 351 704 |
| Current-year receipts | 2 650 000 | 2 500 000 |

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|---|----------------|------------------|
| 26. Government grants and subsidies (continued) | | |
| Conditions met - transferred to revenue | (2 650 000) | (2 500 000) |
| Roll over not approved | - | (1 351 704) |
| | - | - |
| Conditions still to be met - remain liabilities (see note15). | | |
| Provincial: Rural planning & survey | | |
| Balance unspent at beginning of year | 126 943 | 126 943 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | - |
| | <u>126 943</u> | <u>126 943</u> |
| Conditions still to be met - remain liabilities (see note15). | | |
| Provincial: KSD Elections- Road Maintenance | | |
| Balance unspent at beginning of year | 109 543 | 109 543 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | - |
| | <u>109 543</u> | <u>109 543</u> |
| Conditions still to be met - remain liabilities (see note15). | | |
| Department of Housing and Local Government | | |
| Balance unspent at beginning of year | 333 652 | 333 652 |
| Current-year receipts | - | - |
| | <u>333 652</u> | <u>333 652</u> |
| Conditions still to be met - remain liabilities (see note15). | | |
| Library Grant | | |
| Current-year receipts | 1 750 000 | 1 750 000 |
| Conditions met - transferred to revenue | (1 750 000) | (1 750 000) |
| | <u>-</u> | <u>-</u> |
| Conditions still to be met - remain liabilities (see note15). | | |
| Infrastructure Skills Development | | |
| Balance unspent at beginning of year | (166 622) | 2 104 825 |
| Current-year receipts | 5 500 000 | 5 435 000 |
| Conditions met - transferred to revenue | (5 333 378) | (5 601 622) |
| Roll over not approved | - | (2 104 825) |
| | <u>-</u> | <u>(166 622)</u> |
| Conditions still to be met - remain liabilities (see note15). | | |

King Sabata Dalindyebo Local Municipality

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| Figures in Rand | 2022 | 2021 |
|---|--------------|-------------|
| 26. Government grants and subsidies (continued) | | |
| Organogram Development Grant | | |
| Balance unspent at beginning of year | 294 477 | 294 477 |
| Conditions still to be met - remain liabilities (see note15). | | |
| Department of Transport | | |
| Balance unspent at beginning of year | 7 236 277 | 7 236 277 |
| Conditions still to be met - remain liabilities (see note15). | | |
| Small Town Revitalisation | | |
| Current-year receipts | 12 826 186 | - |
| Conditions met - transferred to revenue | (14 904 487) | - |
| Reclassification to receivable from non-exchange transaction | 2 078 301 | - |
| | - | - |
| Conditions still to be met - remain liabilities (see note15). | | |
| National: Department of Energy - Electrification Projects | | |
| Balance unspent at beginning of year | - | (131 017) |
| Current-year receipts | - | 2 500 000 |
| Conditions met - transferred to revenue | - | (6 777 766) |
| Prior year grant exceeded | - | 4 408 783 |
| | - | - |
| There was no budget allocated to the municipality in the 2021/22 financial year as per DORA. | | |
| Expanded Public Works Programme | | |
| Current-year receipts | 3 764 000 | - |
| Conditions met - transferred to revenue | (3 764 000) | - |
| | - | - |
| Conditions still to be met - remain liabilities (see note 15). | | |
| Provide explanations of conditions still to be met and other relevant information. | | |
| Changes in level of government grants | | |
| Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years. | | |
| 27. Fines, Penalties and Forfeits | | |
| Service Provider Traffic Fines | 35 128 | 58 604 |
| Municipal Traffic Fines | 1 565 000 | 4 079 869 |
| Tender Withdrawal Penalties | 85 200 | 10 000 |

King Sabata Dalindyebo Local Municipality

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| Figures in Rand | 2022 | 2021 |
|--|------------------|------------------|
| 27. Fines, Penalties and Forfeits (continued) | | |
| Fines, Penalties and Forfeits 1 | 321 893 | - |
| | 2 007 221 | 4 148 473 |

All outstanding traffic fines have been impaired due to uncertainty of recovery, these debts by their nature can be contested in the courts or through application of fine relief.

28. Public contributions and donations

| | | |
|------------------------------------|--------|------------|
| Public contributions and donations | 67 970 | 11 969 770 |
|------------------------------------|--------|------------|

The 2022 donations received were assets donated by SALGA and Department of Forestry, Fisheries and the Environment to the Municipality.

29. Lease rentals on operating lease

| | | |
|----------------------------|-------------------|------------------|
| Premises | | |
| Contractual amounts | 2 156 854 | 557 997 |
| Motor vehicles | | |
| Contractual amounts | 10 621 901 | 4 485 236 |
| Equipment and other | | |
| Contractual amounts | 2 644 452 | 2 864 613 |
| | 15 423 207 | 7 907 846 |

The 2021 figures were reclassified between premises, motor vehicles and equipment to ensure correct allocation. The total balance of the leases was not changed.

King Sabata Dalindyebo Local Municipality

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|---|----------------------|----------------------|
| 30. Revenue | | |
| Service charges | 562 452 446 | 495 689 905 |
| Rental of facilities and equipment | 18 022 332 | 12 920 166 |
| Licences and permits | 13 460 587 | 15 002 969 |
| Other income | 53 023 913 | 46 361 505 |
| Interest revenue - exchange transactions | 23 428 823 | 22 809 170 |
| Property rates | 285 453 763 | 245 824 497 |
| Interest revenue - non-exchange transactions | 15 528 926 | 20 608 558 |
| Government grants & subsidies | 498 598 147 | 539 558 046 |
| Public contributions and donations | 67 970 | 11 969 770 |
| Fines, Penalties and Forfeits | 2 007 221 | 4 148 473 |
| Fair value adjustment | 11 055 093 | 11 828 981 |
| | 1 483 099 221 | 1 426 722 040 |
| | | |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Service charges | 562 452 446 | 495 689 905 |
| Rental of facilities and equipment | 18 022 332 | 12 920 166 |
| Licences and permits | 13 460 587 | 15 002 969 |
| Other income | 53 023 913 | 46 361 505 |
| Interest received | 23 428 823 | 22 809 170 |
| Fair value adjustment | 11 055 093 | 11 828 981 |
| | 681 443 194 | 604 612 696 |
| | | |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Taxation revenue | | |
| Property rates | 285 453 763 | 245 824 497 |
| Interest, Dividends and Rent on Land | 15 528 926 | 20 608 558 |
| Transfer revenue | | |
| Financial Assistance | 498 598 147 | 539 558 046 |
| Public contributions and donations | 67 970 | 11 969 770 |
| Other transfer revenue | 2 007 221 | 4 148 473 |
| | 801 656 027 | 822 109 344 |
| | | |
| 31. Employee related costs | | |
| Basic | 323 929 258 | 302 289 797 |
| Acting allowances | 2 457 683 | 3 424 347 |
| Overtime payments | 25 634 974 | 29 352 514 |
| Bonus- Annual Leave | 24 049 029 | 22 207 160 |
| Medical aid - company contributions | 27 467 670 | 25 737 769 |
| Pension and Provident Fund Contribution | 50 070 982 | 46 159 593 |
| UIF | 2 916 133 | 2 707 539 |
| WCA | 3 920 501 | 190 300 |
| SDL | 559 572 | 418 297 |
| Leave pay provision charge | 4 328 976 | 4 084 233 |
| Travel, motor car, accommodation, subsistence and other allowances | 25 042 925 | 21 832 239 |
| Long-service awards | 9 508 539 | 5 985 167 |
| Housing benefits and allowances | 25 757 769 | 26 756 864 |
| Termination benefits | 10 306 536 | 8 553 058 |
| | 535 950 547 | 499 698 677 |

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| 31. Employee related costs (continued) | | |
| Remuneration of municipal manager - Mr N Pakade | | |
| Annual Remuneration | 907 082 | 1 108 855 |
| Contributions to UIF, Medical and Pension Funds | 122 125 | 81 813 |
| Other | 522 625 | 385 917 |
| | 1 551 832 | 1 576 385 |
| Remuneration of chief finance officer - Mr EF Jiholo | | |
| Annual Remuneration | 856 476 | 856 476 |
| Contributions to UIF, Medical and Pension Funds | 2 125 | 1 813 |
| Other | 591 708 | 585 082 |
| | 1 450 309 | 1 443 371 |
| Remuneration of Director: Community Services - Mr LP Maka | | |
| Annual Remuneration | 1 427 459 | 1 427 459 |
| Contributions to UIF, Medical and Pension Funds | 2 125 | 1 813 |
| Other | 22 592 | 26 502 |
| | 1 452 176 | 1 455 774 |
| Remuneration of Director: Corporate services - Mr S Nodo | | |
| Annual Remuneration | 758 684 | 758 684 |
| Performance Bonuses | - | 17 273 |
| Contributions to UIF, Medical and Pension Funds | 234 967 | 234 655 |
| Other | 288 689 | 279 395 |
| | 1 282 320 | 1 289 987 |
| Remuneration of Director: Local Economic Development - Mr AO Pantshwa | | |
| Annual Remuneration | 918 553 | 918 563 |
| Contributions to UIF, Medical and Pension Funds | 80 125 | 79 813 |
| Other | 605 228 | 597 276 |
| | 1 603 906 | 1 595 642 |
| Remuneration of Director : Human Settlements- Miss GR Tobla | | |
| Annual Remuneration | 1 207 460 | 603 730 |
| Contributions to UIF, Medical and Pension Funds | 2 125 | 921 |
| Other | 16 509 | 6 037 |
| | 1 226 094 | 610 688 |

King Sabata Dalindyebo Local Municipality

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31. Employee related costs (continued)

Remuneration of Director : Infrastructure : Mr Mnqokoyi

| | | |
|---|------------------|------------------|
| Annual Remuneration | 758 664 | 758 664 |
| Performance Bonuses | - | 8 074 |
| Contributions to UIF, Medical and Pension Funds | 315 156 | 314 843 |
| Other | 218 870 | 212 413 |
| | 1 292 690 | 1 293 994 |

Remuneration of Director: Public Safety - Mr D Kettledas

| | | |
|---|------------------|------------------|
| Annual Remuneration | 1 241 269 | 1 208 856 |
| Contributions to UIF, Medical and Pension Funds | 2 125 | 1 813 |
| Other | 11 394 | 9 309 |
| | 1 254 788 | 1 217 978 |

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| 32. Remuneration of councillors | | |
| Mayor - GN Nelani | 938 730 | 941 115 |
| Speaker - Slyo- Sokutu (New) | 484 870 | - |
| Speaker - TG Maqoko (Out-going) | 276 384 | 782 187 |
| Chief Whip : Mr B Mlanjeni (New) | 455 160 | - |
| Chief Whip : Mr M Nyoka (Out-going) | 260 127 | 719 304 |
| Executive committees | 6 216 766 | 6 981 688 |
| Other Councillors | 19 993 947 | 18 870 786 |
| | 28 625 984 | 28 255 080 |
| Executive Mayor- Mr Nelani | | |
| Basic | 856 512 | 893 850 |
| Backpay paid and also due at year end | 37 818 | - |
| Cellphone | 40 800 | 40 800 |
| Data card | 3 600 | 3 600 |
| Solidarity Refund | - | 2 865 |
| | 938 730 | 941 115 |
| Speaker : Mrs N Slyo-Sokutu | | |
| Basic | 434 415 | - |
| Backpay paid and also due at year end | 21 842 | - |
| Cellphone | 26 293 | - |
| Data Cards | 2 320 | - |
| | 484 870 | - |
| Speaker : Miss TG Maqoko | | |
| Basic | 254 250 | 715 078 |
| Backpay paid and also due at year end | 6 347 | - |
| Cellphone | 14 507 | 40 800 |
| Subsistence Allowance | - | 417 |
| Data Cards | 1 280 | 3 600 |
| Solidarity Refund | - | 2 292 |
| | 276 384 | 762 187 |
| Chief Whip : Mr B Mlanjeni | | |
| Basic | 408 345 | - |
| Backpay paid and also due at year end end | 18 202 | - |
| Cellphone | 26 293 | - |
| Data Cards | 2 320 | - |
| | 455 160 | - |
| Chief Whip : Mr M Nyoka | | |
| Basic | 238 360 | 670 387 |
| Backpay paid and also due at year end | 5 980 | - |
| Cellphone | 14 507 | 40 800 |
| Subsistence Allowance | - | 2 368 |
| Data Cards | 1 280 | 3 600 |
| Solidarity Refund | - | 2 149 |

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| 32. Remuneration of councillors (continued) | | |
| | 260 127 | 719 304 |
| Executive Committees | | |
| Basic | 5 411 731 | 6 160 596 |
| Backpay paid and also due at year end | 188 083 | - |
| Cellphone | 396 214 | 448 800 |
| Solidarity refund | - | 7 892 |
| Data Card | 34 960 | 39 600 |
| Travelling | 183 989 | 304 800 |
| Subsistence allowance | 1 789 | - |
| | 6 216 766 | 6 961 688 |
| Other Councillors | | |
| Basic | 16 329 075 | 15 626 084 |
| Backpay paid and also due at year end | 297 384 | - |
| Cellphone | 2 394 449 | 2 310 684 |
| Data card | 214 623 | 203 884 |
| Solidarity refund | - | 27 149 |
| Travelling and subsistence | 764 202 | 702 986 |
| | 19 999 733 | 18 870 787 |
| In-kind benefits | | |
| The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. | | |
| The Executive Mayor and the Speaker of the Council have the use of separate Council owned vehicles for official duties. | | |
| The current Executive Mayor, Speaker and Chief Whip were appointed from November 2021. | | |
| 33. Depreciation and amortisation | | |
| Property, plant and equipment | 160 210 549 | 164 629 824 |
| Intangible assets | 568 675 | 206 582 |
| | 160 799 224 | 164 836 406 |
| 34. Finance costs | | |
| Interest on overdue accounts trade and other payables | 11 924 271 | 19 665 326 |
| Borrowings | 5 288 511 | 7 865 780 |
| Interest on provision landfill site | 1 699 560 | 1 610 958 |
| | 18 912 342 | 29 142 064 |
| 35. Debt impairment | | |
| Impairment of debtors | 1 586 096 | 4 321 658 |
| 36. Bulk purchases | | |
| Electricity - Eskom | 387 728 872 | 322 019 740 |

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| 37. Contracted services | | |
| Presented previously | | |
| Information Technology Services | 6 941 376 | 6 013 200 |
| Specialist Services | 4 410 670 | 3 259 229 |
| Other Contractors | 10 450 640 | 7 448 349 |
| | 21 802 686 | 16 720 778 |
| 38. Grants and Subsidies paid | | |
| Other subsidies | | |
| Other grants | 441 655 | 245 790 |
| Municipal systems improvement grant | - | 600 231 |
| Council ward committees | 10 067 091 | 10 620 600 |
| SETA | - | 29 204 |
| Bursaries | 330 800 | 764 621 |
| Community participation | 5 125 959 | 3 871 520 |
| Public expense | 1 981 028 | 1 800 515 |
| Expanded Public works program | 7 439 661 | 7 136 694 |
| Department of Local Government | 12 600 | 1 135 639 |
| Infrastructure skills development grant | 44 230 | 41 344 |
| Finance Management Grant | 2 405 477 | 2 538 010 |
| Ward based budgeting | 3 684 423 | 5 156 534 |
| Ward based budgeting | 568 852 | 137 001 |
| Indigent Subsidy | 32 820 886 | 28 259 453 |
| | 64 922 662 | 62 336 166 |
| 39. General expenses | | |
| Advertising | 381 508 | 475 093 |
| Audit committee expenses | 380 940 | 381 987 |
| Auditors remuneration | 10 343 718 | 9 358 174 |
| Bank Charges | 1 451 634 | 1 851 518 |
| Capital expenditure | 1 624 | 691 138 |
| Cleaning materials | 4 340 000 | 5 350 513 |
| Commission paid | 2 871 989 | 3 084 624 |
| Community cleaning project | 1 634 103 | 1 148 100 |
| Community development and training | 2 224 839 | 2 432 383 |
| Conferences and seminars | 556 974 | 547 378 |
| Consulting and professional fees | 12 223 361 | 4 878 529 |
| Debt Incentive and debts adjustments | 18 302 369 | 13 626 656 |
| Donations/Transfer of assets | 36 431 882 | 563 500 |
| Entertainment | 640 208 | 69 633 |
| Erven Cleaning Fees | 312 333 | 96 572 |
| Fuel and oil | 13 139 221 | 9 724 943 |
| Incentive - Prompt Payment | 2 244 425 | 1 428 254 |
| Informal Trading Assistance | 994 000 | 262 500 |
| Insurance | 4 159 635 | 5 531 941 |
| LA Equipment & Tools - Vulindlela | - | 122 479 |
| Legal Fees | 8 269 694 | 17 988 478 |
| Levies | 10 249 965 | 10 112 218 |
| Magazines, books and periodicals | 17 497 | - |
| Strategic planning | 607 478 | - |
| Subscriptions and Membership Fees | 5 931 | 27 129 |
| Material & Stores | 6 201 087 | 2 989 695 |
| Motor vehicle expenses | 1 362 098 | 1 849 576 |
| Municipal Service Charges | 12 237 961 | 14 169 222 |
| Other expenses | 3 427 070 | 2 411 825 |
| Printing and stationery | 1 569 483 | 1 173 431 |
| Promotions and sponsorships | 26 073 | 18 689 |
| Recruitment Expenses | 86 064 | 328 213 |
| Rehabilitation of Tip Sites | 1 240 780 | 213 822 |

King Sabata Dalindyebo Local Municipality

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| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 39. General expenses (continued) | | |
| Repairs and maintenance | 78 540 172 | 52 522 975 |
| Royalties and license fees | 2 926 435 | 10 579 595 |
| Seed, Bulbs & Plants | - | 191 890 |
| Staff welfare | 56 201 | 16 651 |
| Subsistence & Travelling | 4 596 866 | 2 029 688 |
| Telephone and fax | 10 955 720 | 8 238 214 |
| Tourism Development | - | 62 150 |
| Training | 3 183 082 | 1 769 109 |
| Uniforms | 4 709 087 | 4 908 175 |
| Valuation expenses | 749 418 | 2 167 329 |
| | 263 652 925 | 196 201 009 |
| 40. Auditors' remuneration | | |
| Fees | 10 343 718 | 9 358 174 |
| 41. Cash generated from operations | | |
| (Deficit) surplus | (36 880 964) | 95 180 911 |
| Adjustments for: | | |
| Depreciation and amortisation | 160 799 224 | 164 836 406 |
| Loss on sale of assets and liabilities | 1 086 672 | 1 102 715 |
| Fair value adjustments | (11 055 093) | (11 828 981) |
| Grants and subsidies received non-cash item | (2 078 301) | - |
| Finance costs - Interest on landfill site (non cash item) | 1 699 560 | - |
| Debt Impairment | 1 586 096 | 4 321 658 |
| Movement in Whirlprops Included in Finance costs | 6 994 | - |
| Sundry debtors movement affecting employee costs | - | 88 356 |
| Other non cash item | (2 060) | - |
| Public Contributions | (67 970) | (11 989 770) |
| Movement in accrued leave and bonus provision | (930 829) | - |
| Inventory write down | 19 489 068 | - |
| Inventories | (3 733 532) | (3 468 961) |
| Receivables from exchange transactions | (11 798 610) | (5 809 596) |
| Movement in provision for debt Impairment - Receivables from Exchange Transactions | (33 731 406) | 647 898 |
| Receivables from non-exchange transactions | (19 727 609) | (16 419 525) |
| Movement in provision for debt Impairment - Receivables from Non-Exchange Transactions | 32 145 309 | (4 989 556) |
| Insurance prepayment | (1 662 813) | - |
| Debt Incentive | - | (13 626 656) |
| Grants Included in receivables from non-exchange transactions | (2 078 301) | - |
| Movement in income received in advance | (144 219) | - |
| Payables from exchange transactions | 5 274 891 | (31 068 144) |
| VAT Receivable | - | 7 498 463 |
| VAT Payable | 8 293 362 | (6 793 812) |
| Unspent conditional grants and receipts | (4 309 835) | 9 387 177 |
| Consumer deposits | 1 455 119 | 2 982 537 |
| Provision and Obligations | 4 359 560 | 1 124 957 |
| Donations/Transfers of properties | 36 431 882 | - |
| Movement in self insurance reserves | 47 563 | - |
| | 144 453 658 | 181 216 077 |
| 42. Budget differences | | |
| Material differences between budget and actual amounts | | |

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42. Budget differences (continued)

Only variances exceeding 10% are considered material and have been explained below.

Property rates

The difference is due to supplementary valuation roll that was implemented in January 2022.

Service charges:

Electricity shortfall might be due to: Possible theft and illegal connections. Unmetered usage of own electricity where Eskom meters are used by communities. Loadshedding also impacts on electricity losses.

Rental of facilities and equipment:

- Reason for the deviation from the planned collection is the resistance on the lessees to sign leases and pay monthly rental - Nkululekweni, Basil Read, Ngangelizwe and Owen Dam.
- Unoccupied Munitata shop spaces. The spaces will be allocated and utilised for offices due to shortage of offices. .

Licence and permits:

- The Post Office are also offering renewal of motor vehicle licenses after a long period of closure. Regular loadshedding is a contributing factor, whilst the generator of the section became redundant. A new generator was requested.
- DLTC- Less candidates are accommodated per session. We used to test eighteen candidates per session. We now allow 7 candidates per session.

Other income:

The difference is due to SARS refund on interest that were previously incurred and paid by the municipality. The municipality applied for SARS remission.

Interest received:

This is due overbudgeting on interest revenue and also to improved debt collection of arrear debts in the period under review.

Government Grants and Subsidies:

This is due to the Human Settlement grant that is still not yet fully spent.

Fines, Penalties and Forfeits:

Shortfall is due to the municipality terminated the contract of Mikros which was a traffic management system and as a result there was no bus with cameras and cameras for speed which used to assist the municipality to receive for revenue.

Employee related costs:

Appointments on posts that were not budgeted for. Expenditure on overtime and acting allowances that were not budgeted for.

Remuneration of councillors:

Changes in the determination of upper limits that resulted in less payments to councillors.

Depreciation:

This is due to additions that were capitalised in the current year resulting in an increase in depreciation.

Debt impairment:

The budget was based on the prior year AFS amount and the recoverability of debtors increased in the current which means less provision of debtors in the current year.

Finance Cost:

Due to under provision or under-budgeting for bank charges. The interest charged on overdue accounts is not budgeted for by the municipality as it relates to fruitless and wasteful expenditure and thus interest was charged by service providers which was not budgeted for.

Lease rentals on operating lease:

Under budgeting for the lease rentals.

Government Grants and Subsidies Paid:

Due to budgeted expenditure of revenue foregone not utilised.

Bulk Purchases:

Due to loadshedding that resulted in less demand for electricity.

Contracted Services:

Due to increase in demand for services such as repairs and maintenance that are outsourced.

General expenses:

This is due to overspending mainly on transfers of land to beneficiaries and repairs and maintenance.

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|---|-------------|------------|
| 42. Budget differences (continued) | | |
| Fair Value adjustment: | | |
| Not budgeted for. | | |
| Loss on disposal of PPE: | | |
| Under budgeting | | |
| 43. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Property, plant and equipment | 120 567 478 | 84 331 259 |
| Total capital commitments | | |
| Already contracted for but not provided for | 120 567 478 | 84 331 259 |

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

44. Contingencies

At year end the municipality had the following contingent assets and contingent liabilities.

Pending litigations and claims

Disclose:

- any contingent liabilities that the venturer has incurred in relation to its interest in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other ventures.
- its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable, and
- those contingent liabilities that arise because the venturers is contingently liable for the liabilities of the other venturers of a joint venture.

| Cases | 2022 | 2021 |
|---|--------------------|-------------------|
| Claims for damages related to motor vehicles | 2 980 510 | 2 540 000 |
| claims for damages arising out of the electrocution, claims for damages for emotional shock and trauma, funeral expenses, claims for assault, and other claims for damages | 49 378 551 | 52 928 078 |
| Claims related to unlawful arrest and detentions. | 2 770 000 | 5 820 000 |
| Consolidated container/caravan matters that were impounded when the municipality embarked on a clean up campaign. | 13 630 000 | 10 339 511 |
| Labour matters, claims for acting allowances, claims for overtime, labour matters emanating from termination of contracts, alleged unfair dismissal. | 37 880 000 | 17 435 500 |
| Land matters: Land claims, Eviction proceedings, Demolishing of structures. | 19 185 500 | 6 986 500 |
| Tender claims: Contractual: Damages for alleged breach of a contract. Claim for Commission due, owing and payable allegedly breach of contract flowing from an agreement to reconcile VAT and claim what is due to KSD. | 680 000 | 1 280 000 |
| | 126 504 561 | 97 329 589 |

45. Related parties

Relationships
Executive Mayor
Speaker
Chief Whip
Members of the Mayoral Committee

Cllr. GN Nelani
Cllr. N Siyo- Sukulu
Cllr. B Mlanjeni
Cllr. MS Dudumayo

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45. Related parties (continued)

Councillors

Cllr. M Bango
Cllr. Z Nokayi
Cllr. YR Gwadiso
Cllr. N Mayi
Cllr. Z Madyibi
Cllr. N Sibeko
Cllr. S Nyengane
Cllr. M Marasha
Cllr. Z Gana
Cllr. N. Matubatuba
Cllr. N Gwebani
Cllr. R Roeber
Cllr. U Daniso
Cllr. A Msuthu
Cllr. SE Mngeni
Cllr. NG Sidlova
Cllr. MS Ngudle
Cllr. M Mejeke
Cllr. N Matyeba
Cllr. N Juben
Cllr. SN Majikija

Cllr. N Nkathu
Cllr. NG Tshaya
Cllr B.Sillinga
Cllr. A Ketse
Cllr. M Makaba
Cllr. CS Tokwana
Cllr. S Ratshalala
Cllr. SC Mahunqane
Cllr. ZL Siziba
Cllr. B Vuma
Cllr. MJ Msakeni
Cllr. S Dalasile
Cllr. S Mdunyelwa
Cllr. S Mhlaba
Cllr. TT Mtshakazana
Cllr. T Badli
Cllr. L Makhenke
Cllr. LC Molakalaka
Cllr. DM Teti
Cllr. B Nxeve
Cllr. TM Gqiba
Cllr R Knock
Cllr A Mgquba
Cllr L M Luwaca
Cllr T G Maqoko
Cllr M Nyoka
Cllr N R Gcingca
Cllr L N Ntlonze
Cllr M T Mtirara
Cllr T Machaea
Cllr T E Mapekula
Cllr J Yoko
Cllr Z D Kutu
Cllr M Mabaso
Cllr S Jadiso
Cllr V N S Roji
Cllr M Menzelwa
Cllr M Qotyana
Cllr Z Luvantyu
Cllr N Mkontwana
Cllr Z M Gusana
Cllr T Mcimbi
Cllr N Diblokwe
Cllr O Khotso
Cllr M Mrwebi

Councillors who are no longer part of the new council after elections:

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45. Related parties (continued)

Cllr E M Fileyo
 Cllr Z Ntliziyombi
 Cllr A Ndzendze
 Cllr B Bikanl
 Cllr X M Mbongwana
 Cllr M Mkhotheli
 Cllr L Mkonto
 Cllr S Sikrenya
 Cllr L D Liwanl
 Cllr B D Bara
 Cllr N Gcinindawo
 Cllr B Ndlobongela
 Cllr B Babile
 Cllr T Mngoma
 Cllr T Bhova
 Cllr M Burzana
 Cllr G N Lusu
 Cllr N F Mzimane
 Cllr M W Malotana
 Cllr B B Gqwetha
 Cllr N Ngqongwa
 Cllr N Pali
 Cllr N Nyangani
 Cllr M Mpangele
 Cllr M Fukula
 Cllr U N V Malghas
 Cllr N M Nqwazi
 Cllr DM Zozo
 Cllr N Mtwa
 Cllr N A Sobahle
 Cllr L P Zuma
 Cllr M A Manzohwandle
 Cllr B Malghas
 Cllr L A Tshiseka
 Cllr N P Ngalo
 N Pakade (Municipal Manager)
 EF Jhlo (Chief Financial Officer)
 LP Maka (Director Community Services)
 D Kettleidas (Director Public Safety)
 GR Tobia (Director Human Settlements)
 AO Pantshwa (Director LED)
 U Mngokoyl (Director: Technical Services)
 SM Noda (Director Corporate Services)

Members of key management

Awards to close family members of persons in the service of the state:

In terms of section 45 of the Municipal SCM Regulations, any award above R2 000 to family of employees in the service of the state must be disclosed in the annual financial statements.

Eight awards were made during the financial year to close family members of persons in the service of the state. Four of them are rate based and the other four totals to R64 792.00. These were declared by the bidders in their bid documents.

46. Unauthorised expenditure

| | | |
|--|--------------------|--------------------|
| Unauthorised expenditure | 107 608 375 | 677 561 807 |
| Add: Unauthorised operating expenditure - current year | 119 032 989 | 3 648 060 |
| Add: Unauthorised capital expenditure - current year | 10 536 169 | - |
| Less: Unauthorised expenditure - Write off during the year | (71 656 375) | (573 599 492) |
| | 165 521 158 | 107 608 375 |

Operating expenditure

Reason

Amount

King Sabata Dalindyebo Local Municipality

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|--|---|----------------------|
| 46. Unauthorised expenditure (continued) | | |
| Corporate Services | Post and Telecommunications and Consultants & Professional Fees under provided. | 5 032 784 |
| Budget and Treasury | Interest on overdue accounts not budgeted for. | 56 223 800 |
| Community Services | Under budgeting for depreciation, audit fees, provision for impairment, VAT and insurance. | 1 071 452 |
| Public Safety | Interest on landfill sites not budgeted for. | 9 598 327 |
| Technical Services | Overtime pay under budgeted | 45 435 168 |
| RED | Donations that were not budgeted for. | 1 671 458 |
| | Unplanned maintenance by consultants | 1 671 458 |
| | | 119 032 989 |
| Capital expenditure | Reasons | |
| Corporate Services | Computer Equipment not budgeted for | 1 311 109 |
| Budget and Treasury Office | Fuel Tanker not budgeted for | 1 510 000 |
| RED | Small Town Revitalisation grant overspent due to escalated spending and funds were received subsequent to the year end. | 2 960 424 |
| Technical Services | MIG grant overspent due to escalated spending | 4 754 636 |
| | | 10 536 169 |
| Unauthorised expenditure has been referred to MPAC for investigation. | | |
| Unauthorised expenditure: Budget overspending per municipal department. | | |
| 47. Fruitless and wasteful expenditure | | |
| Opening balance as previously reported | 20 774 625 | 54 021 610 |
| Opening balance | 20 774 625 | 54 021 610 |
| Add: Expenditure identified - current | 11 924 271 | 19 562 870 |
| Less: Amount written off - current (OCM 211/07/22) | (7 323 020) | (52 809 855) |
| Less: Amount written off - prior period (OCM 210/07/22) | (19 662 889) | - |
| Less: Amount written off - prior period (SCM 227/08/22) | (1 211 754) | - |
| Closing balance | 4 601 253 | 20 774 625 |
| Fruitless and wasteful expenditure was incurred as a result of interest and penalties charged on late payments, the delays in payment is due to cashflow challenges currently being experienced by the municipality. | | |
| The Fruitless and wasteful expenditure has been referred to the Municipal Council to be written off in accordance with Section 32(2)(b) of the MFMA. | | |
| 48. Irregular expenditure | | |
| Opening restated balance | 1 455 427 899 | 1 446 143 227 |
| Add: Irregular Expenditure - current year | 6 844 697 | 9 284 672 |
| Less: Amount written off - prior period (SCM 225/08/22) | (1 116 013 254) | - |
| Less: Amount written off - current (OCM 212/07/22) | (411 954) | - |
| Less: Amount written off - prior period (OCM 209/07/22) | (108 398) | - |
| | 345 738 989 | 1 455 427 899 |
| Details of Irregular expenditure – current year | | |
| No Specification committee | | 6 276 845 |
| SCM process not followed | | 155 898 |
| No variation order initiated | | 411 954 |
| | | 6 844 697 |

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48. Irregular expenditure (continued)

Irregular expenditure has been restated by reversing all prior year write-offs that were disclosed in the financial statements as they had errors. The new write-off has been done with the correct amounts as per the irregular expenditure register.

The adjustment made relates to the reversal of all previously disclosed irregular expenditure write-offs as per the council resolution VUCM 189/07/22. A new write-off of amounts was referred to MPAC with the expenditure being amounts as per the previously audited irregular expenditure register. The council rescinded the previous resolution due to the errors that were identified. The new write-off when done in the current year and have been taken-out in the current year.

There was no irregular expenditure incurred from awards made in the current year and the irregular expenditure incurred in the current year is as a result of historic contracts which are as follows:

- No Specification committee in place (This is recurring and is as a result of the Stedone contract which was awarded in 2010) - R6 276 844.98
- No SCM Process followed (This is historic and is as a result of the Tyeks services which were sourced in 2018, these services have since been stopped) - R155 897.64
- No variation order initiated (This historic and is as a result of the Bluetech contract which was awarded in May 2018, this contract has since expired) - R411 954.16

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

| | | |
|---------------------------------|------------------|------------------|
| Opening balance | 5 461 334 | 2 322 615 |
| Current year subscription / fee | 5 423 084 | 5 423 085 |
| Amount paid - current year | (5 423 084) | (2 284 366) |
| | 5 461 334 | 5 461 334 |

Distribution losses

During the 2022 financial year the Municipality incurred distribution losses relating to electricity of 15.87% (2021:16.68%).

Electricity distribution losses in units

| | | |
|------------------------------------|-------------------|-------------------|
| Purchases | 275 281 159 | 276 025 135 |
| Own use | (3 425 800) | (3 459 799) |
| Pre-paid consumer electricity sold | (94 837 618) | (95 387 672) |
| Conventional consumer billed | (133 527 937) | (131 146 994) |
| | 43 689 804 | 46 030 670 |

Units purchased during the year

| | | |
|---------------------------------|-------------------|-------------------|
| Units purchased during the year | 275 281 159 | 276 025 135 |
| Units sold during the year | (231 591 355) | (229 994 464) |
| | 43 689 804 | 46 030 671 |

Rand per unit

| | | |
|---------------|-------------|------------|
| Rand per unit | 2,40 | 1,91 |
| Cost in rands | 105 017 371 | 87 886 128 |

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

Losses are due to the followings:

Own Consumption

This is the unbilled energy consumed by the municipality in day-to-day operations (areas like offices, depots, workshops) without which the municipality cannot function.

Public Lighting

KSDM provides its citizens public lighting through streetlights and High mast lights as part of the constitutional mandate of a safe environment.

Traffic Signals

The traffic signals are vital for traffic management and pedestrian safety and these dedicated servants need to operate 24/7 and to operate they consume energy.

Defective meters and administrative errors

Some of the meters were installed a long time ago and are thus providing erratic readings. Meter readings and capturing are done manually wherein the possibility of human error is inevitable. Efforts are being made to audit the work and to monitor customer complaints.

Electricity Theft and illegal connections

There is a growing pattern of electricity theft through illegal connections and unauthorised re-connections. This often poses an unsafe environment and increases the load on the network causing power failures.

Meter tampering

Some residents have tampered with their electricity meters resulting to free consumption and or reduced electricity consumption. Others opted to remove the KSDM prescribed meter and install a foreign meter (in the KSDM network supply area) which allows the consumer to buy electricity at the reduced rate.

Audit fees

| | | |
|---------------------------------|----------------|------------------|
| Opening balance | 4 105 922 | 94 158 |
| Current year subscription / fee | 11 976 667 | 10 858 235 |
| Amount paid - current year | (15 705 745) | (6 846 469) |
| | 376 844 | 4 105 922 |

PAYE, UIF and SDL

| | | |
|---------------------------------|-------------------|-------------------|
| Opening balance | 44 440 401 | 75 313 428 |
| Current year subscription / fee | 248 772 868 | 89 316 177 |
| Amount paid - current year | (255 775 684) | (120 189 204) |
| | 37 437 586 | 44 440 401 |

Pension, Provident and Medical Aid Deductions

| | | |
|---------------------------------|-------------------|-------------------|
| Opening balance | 48 617 809 | 36 384 634 |
| Current year subscription / fee | 343 700 615 | 114 625 188 |
| Amount paid - current year | (337 171 271) | (102 292 013) |
| | 55 147 153 | 48 617 809 |

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022 and MFMA s124(1)(b) requires them to be disclosed:

| 30 June 2022 | Outstanding more than 90 days R | Total R |
|--------------------------|--|----------------|
| Khutala/ Mawande Nokwali | 40 949 | 40 949 |
| Nombulelo Sibeko | 2 148 | 2 148 |
| Rapiya Shadrack | 57 205 | 57 205 |
| | 100 302 | 100 302 |

| 30 June 2021 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|--------------|---------------------------------------|--|--------------|
| Malotiana MW | 2 951 | 5 487 | 8 438 |
| Mabaso MM | 654 | - | 654 |
| | 3 605 | 5 487 | 9 092 |

Supply Chain Management Deviations

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

50. Supply Chain Management Regulations

The expenses incurred listed below are instances of Supply Chain Management deviations reported to the council.

| Incident | 2022 | 2021 |
|---|------------------|-------------------|
| impractical to follow SCM Processes/Three quotations not obtained | 1 096 075 | - |
| Sole supplier | 1 095 907 | 17 163 |
| Emergency procurement | - | 9 807 274 |
| Advertising in local newspaper and radio stations | - | 278 722 |
| Pauper burials-body already at parlour | 18 470 | 16 800 |
| Covid - 19 | - | 173 228 |
| | 2 210 452 | 10 093 187 |

51. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out under policies approved by the accounting officer and council. The municipality identifies, evaluates and hedges financial risks in close co-operation with the municipality's various departments. The accounting officer and council provides written principles for overall risk management, as well as written policies covering specific areas.

Liquidity risk

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51. Risk management (continued)

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances equal their carrying balances as the effect of discounting is not significant.

| At 30 June 2022 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|-----------------------------|------------------|-----------------------|-----------------------|--------------|
| Trade and other payables | - | 405 661 867 | - | - |
| Other financial liabilities | - | 3 577 177 | 6 363 968 | - |
| Consumer deposits | - | 25 671 028 | - | - |
| Financial lease obligation | - | 25 954 244 | 6 523 168 | - |

| At 30 June 2021 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|-----------------------------|------------------|-----------------------|-----------------------|--------------|
| Trade and other payables | - | 400 386 969 | - | - |
| Other financial liabilities | - | 3 718 197 | 8 418 165 | - |
| Consumer deposits | - | 24 215 909 | - | - |
| Financial lease obligation | - | 22 700 750 | 32 565 167 | - |

Liquidity risk is mainly concentrated on the Trade and other payables balance.

The municipality does not have any collateral and /or credit enhancements that aid in the mitigation of the liquidity risks.

Credit risk

Credit risk is the risk of financial loss to the municipality if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from the municipality's investments, loans, receivables, and cash and cash equivalents.

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating, and limits exposure to any one counter-party in accordance with Council's approved investment policy.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis and assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Entity establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables. Sales to retail customers are settled in cash or using major credit cards.

The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance.

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

| Financial instrument | 2022 | 2021 |
|--|------------|------------|
| Cash and cash equivalents | 16 744 464 | 50 389 717 |
| Receivables from exchange transactions | 65 921 409 | 54 122 799 |
| Receivables from non-exchange transactions | 74 172 610 | 54 445 001 |

The municipality does not hold any collateral in relation to the financial assets above.

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51. Risk management (continued)

Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates and interest rates, affecting the municipality's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the risk.

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

52. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

| | At amortised cost | Total |
|--|--------------------|--------------------|
| Receivables from exchange transactions | 65 921 409 | 65 921 409 |
| Receivables from non-exchange transactions | 74 172 610 | 74 172 610 |
| Cash and cash equivalents | 16 744 464 | 16 744 464 |
| | 156 838 483 | 156 838 483 |

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Financial Instruments disclosure (continued)

Financial liabilities

| | At amortised cost | Total |
|---|--------------------|--------------------|
| Other financial liabilities | 9 941 145 | 9 941 145 |
| Trade and other payables from exchange transactions | 405 661 867 | 405 661 867 |
| Finance lease obligation | 32 477 412 | 32 477 412 |
| | 448 080 424 | 448 080 424 |

2021

Financial assets

| | At amortised cost | Total |
|--|--------------------|--------------------|
| Receivables from exchange transactions | 54 122 799 | 54 122 799 |
| Receivables from non-exchange transactions | 54 445 001 | 54 445 001 |
| Cash and cash equivalents | 50 389 717 | 50 389 717 |
| | 158 957 517 | 158 957 517 |

Financial liabilities

| | At amortised cost | Total |
|---|--------------------|--------------------|
| Other financial liabilities | 12 136 362 | 12 136 362 |
| Trade and other payables from exchange transactions | 400 386 969 | 400 386 969 |
| Finance lease obligation | 55 265 917 | 55 265 917 |
| | 467 789 248 | 467 789 248 |

53. Events after the reporting date

The municipality is not aware of any events after 30 June 2022 that may have an impact on the financial statements or require disclosure.

54. Prior-year adjustments

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

Statement of financial position

2021

| | Note | As previously reported | Correction of error | Restated |
|--|------|------------------------|---------------------|----------------------|
| Receivables from exchange transactions | | 69 136 426 | (15 013 627) | 54 122 799 |
| Receivables from non exchange transactions | | 61 482 835 | (7 017 834) | 54 445 001 |
| Unspent conditional grants and receipts | | (19 945 900) | (4 408 783) | (24 354 683) |
| VAT | | (6 793 812) | 593 526 | (6 200 286) |
| Payables from exchange transactions | | (390 619 226) | (9 767 743) | (400 386 969) |
| | | (286 759 677) | (35 614 461) | (322 374 138) |

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| 54. Prior-year adjustments (continued) | | | | |
| Statement of financial performance | | | | |
| 2021 | | | | |
| | Note | As previously reported | Correction of error | Restated |
| Rental of facilities and equipment | | 14 811 854 | (1 691 688) | 12 920 166 |
| Interest revenue | | 22 942 498 | (133 328) | 22 809 170 |
| Government grants & subsidies | | 543 966 829 | (4 408 783) | 539 558 046 |
| General expenditure | | (186 540 956) | (8 660 053) | (195 201 009) |
| Surplus for the year | | 394 980 225 | (14 893 852) | 380 086 373 |

Errors

The following prior period errors adjustments occurred:

STATEMENT OF FINANCIAL POSITION

Receivables from exchange transactions

The changes or adjustments made are due to,rentals that were previously charged that had no valid lease agreement.

Receivables from non-exchange transactions

The changes or adjustments made are due to,property rates that were billed which were not registered and also fire levy property that was billed incorrectly using incorrect tariff.

VAT

The changes or adjustments made are due to,rentals that were previously charged that had no valid lease agreement.

Unspent conditional grants and receipts

The changes or adjustments made are due to the DOE grant that was overspent in the prior year and no grant was received in the current year.

Payables from exchange transactions

The changes on the payables from exchange transactions is due to restatement of legal fees which invoices were received in the 2022 financial year however the services related to the previous financial years.

STATEMENT OF FINANCIAL PERFORMANCE:

Rental of facilities and equipment

The changes or adjustments made are due to,rentals that were previously charged that had no valid lease agreement.

Interest revenue

The changes or adjustments made are due to,rentals that were previously charged that had no valid lease agreement and interest was billed on the outstanding balance.

Government grants & subsidies

The changes or adjustments made are due to the DOE grant that was overspent in the prior year and no grant was received in the current year.

General expenditure

The changes on the general expenditure is due to restatement of legal fees which invoices were received in the 2022 financial year however the services related to the previous financial years.

Irregular expenditure

| | | |
|---|---|----------------------|
| Closing balance disclosed as per 2021 AFS | - | 152 401 287 |
| Adjustments made | - | 1 303 026 612 |
| Restated closing balance 2021 | - | 1 455 427 899 |

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54. Prior-year adjustments (continued)

The adjustment made relates to the reversal of all previously disclosed irregular expenditure write-offs as per the council resolution VUCM 189/07/22. A new write-off of amounts was referred to MPAC with the expenditure being amounts as per the previously audited Irregular expenditure register. The council rescinded the previous resolution due to the errors that were identified. The new write-off when done in the current year and have been taken-out in the current year.

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55. Going concern

Total assets amounting to R2 890 070 970 exceed total liabilities balance amounting to R564 349 604 by R2 325 721 366. Accumulated surplus amounts to R1 834 986 554.

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.

Description of the events, conditions, circumstances that indicate going concern uncertainty:

- The current liabilities are currently exceeding the current assets and the current ratio is less than 1 which is less than the required norm.
- The municipality is taking more than the required 30 days to pay creditors and more than 60 days to collect its outstanding debtors.
- Also, the repairs and maintenance of assets is below the norm of 8% and the electricity distribution losses are sitting at 15.87% which is above the norm.

The above are an indication of going concern uncertainty. Based on the above thus, there is a material uncertainty related to events or conditions that may cast significant doubt on the municipalities's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Description of the measures taken to warrant going concern

Below are the plans and measures undertaken or the municipality is undertaking to deal with the impact of the events/circumstances and uncertainties described above:

- The gross debtors for receivables from non-exchange transactions are sitting at R365 million while gross debtors for receivables from exchange transactions are sitting at R479 million and in total combined are sitting at R844 million which is almost two times the total current liabilities. The municipality has appointed a debt collector towards the end of the financial year of 2022 to assist in collecting these debtors and as such this will assist the municipality in future to reduce the current liabilities and improve the current ratio.
- The total assets exceed the total liabilities by R1.8 billion, and thus the municipality is in a net asset situation.
- In addition, the current liabilities that require settlement amounts to R497 million. The municipality will receive equitable share amounting to R 404 million and R118.5 million for capital grants in terms of the DORA allocation as gazetted in the 2022/23 financial year Division of Revenue Act.
- Municipality has collected more than 97% on billed income and 98% on billed electricity.
- Eskom amount payable amounts to R387 728 872 million. The municipality, in the preparation of the 2022/23 budget, has taken onto account balances owed to ESKOM in relation to the arrear arrangement.
- The municipality will increase efforts to recover the substantial arrears via the tools provided within the municipality's credit policy. The municipality has other potential revenue collection strategies such as allocation of current receipting against historical debt, limited amnesty, collections of other service debts via the prepaid system, door to door campaign and debt collection agents. Debt collector has been appointed to collect revenue on difficult to collect debtors.
- Implementation of cost containment policy.
- The municipality has a financial recovery plan in place.

In addition to the above, the municipality plans to finance this shortfall through the following measures:

- Cut backs on discretionary spending.
- Municipality has appointed service providers for resource mobilization and that has led to the municipality getting refunds from SARS amounting to R27m for penalties and interest incurred.

56. Accounting by principals and agents

The entity is a party to a principal-agent arrangements.

Details of the arrangement(s) is/are as follows:

The Municipality acts as an agent for the Department of Transport whereby it administers the provisioning of motor vehicle licences and registrations as well as driver's licences. It receives compensation for these services based on binding arrangement with the department.

The Municipality is the principal OR agent. Refer to note 1.21 for significant judgements applied in making this assessment.

Entity as agent

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R9 156 582 (2021: R9 872 187).

Additional information

Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement(s)

Reconciliation of the carrying amount of payables

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| 56. Accounting by principals and agents (continued) | | |
| Category 1 - Motor Vehicle Licences and Registrations | | |
| Opening balance | 2 525 842 | 4 421 578 |
| Amounts received on behalf of the principal | 45 859 742 | 47 582 878 |
| Amounts transferred to the principal | (46 290 623) | (49 458 714) |
| | 2 194 961 | 2 525 842 |
| All categories | | |
| Opening balance | 2 525 842 | 4 421 578 |
| Amounts received on behalf of the principal | 45 859 742 | 47 582 878 |
| Amounts transferred to the principal | (46 290 623) | (49 458 714) |
| | 2 194 961 | 2 525 842 |

57. Segment Information

General information

Identification of segments

The municipality is organised and reports to management on the basis of five major service areas: electricity, refuse services, fines and penalties, licence services and rentals of facilities and equipment. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were separated for reporting purposes and not aggregated. Other functions are non segment as they are sport services.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Aggregated segments

Segments identified above have not been aggregated.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

| Reportable segment | Goods and/or services |
|--------------------|--------------------------------------|
| Segment 1 | Electrical Services |
| Segment 2 | Refuse (Solid Waste) |
| Segment 3 | Fines and penalties |
| Segment 4 | Licence services |
| Segment 5 | Rentals of facilities and equipments |

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57. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

| | Electrical Services | Refuse (Solid Waste) | Non-Segment | Rental of facilities and equipment | Fines and penalties | Community services - Licence and permits services | Total |
|--|---------------------|----------------------|--------------------|------------------------------------|---------------------|---|----------------------|
| Revenue | | | | | | | |
| Revenue from non-exchange transactions | - | 798 734 006 | - | - | 1 922 021 | - | 801 656 027 |
| Revenue from exchange transactions | 511 376 952 | 58 882 266 | 79 701 057 | 18 022 332 | - | 13 460 587 | 681 443 194 |
| Total segment revenue | 511 376 952 | 58 882 266 | 879 435 063 | 18 022 332 | 1 922 021 | 13 460 587 | 1 483 099 221 |
| Entity's revenue | | | | | | | 1 483 099 221 |
| Expenditure | | | | | | | |
| Employee Related Cost | 34 734 210 | 26 511 961 | 430 343 036 | 11 175 481 | 18 806 896 | 14 378 963 | 535 950 547 |
| Councillors remuneration | - | - | 28 625 984 | - | - | - | 28 625 984 |
| Bulk Purchases | 387 728 872 | - | - | - | - | - | 387 728 872 |
| Contracted Services | 19 621 821 | 145 000 | 21 657 686 | - | - | - | 21 802 686 |
| Depreciation and Amortisation | - | 16 805 313 | 124 572 090 | - | - | - | 160 799 224 |
| Finance costs | - | 1 699 560 | 17 212 782 | - | - | - | 18 912 342 |
| Inventories write-downs | - | - | 19 489 068 | - | - | - | 19 489 068 |
| Lease rentals on operating lease | 845 932 | 125 915 | 13 424 091 | - | 91 644 | 1 135 625 | 15 423 207 |
| General expenditure | 84 153 813 | 9 350 889 | 164 810 723 | 4 371 563 | 507 591 | 458 346 | 263 652 925 |
| Grants and Subsidies paid | - | - | 64 922 662 | - | - | - | 64 922 662 |
| Loss on disposal | - | - | 1 086 572 | - | - | - | 1 086 572 |
| Debt Impairment | - | - | 1 586 096 | - | - | - | 1 586 096 |
| Total segment expenditure | 526 884 648 | 54 438 636 | 887 730 790 | 15 547 044 | 19 406 131 | 15 972 934 | 1 519 880 185 |
| Total segmental surplus/(deficit) | | | | | | | (36 880 964) |
| Assets | | | | | | | |

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| | Electrical Services | Refuse (Solid Waste) | Non-Segment | Rental of facilities and equipment | Fines and penalties | Community services - Licence and permits services | Total |
|---|---------------------|----------------------|----------------------|------------------------------------|---------------------|---|----------------------|
| 57. Segment Information (continued) | | | | | | | |
| Current Assets | - | - | 354 469 041 | - | - | - | 354 469 041 |
| Non-current assets | 465 148 362 | - | 2 070 453 567 | - | - | - | 2 535 601 929 |
| Total segment assets | 465 148 362 | - | 2 424 922 608 | - | - | - | 2 890 070 970 |
| Total assets as per Statement of financial Position | | | | | | | 2 890 070 970 |
| Liabilities | | | | | | | |
| Current Liabilities | - | - | (497 774 813) | - | - | - | (497 774 813) |
| Non-current liabilities | - | - | (66 574 791) | - | - | - | (66 574 791) |
| Total segment liabilities | - | - | (564 349 604) | - | - | - | (564 349 604) |
| Total liabilities as per Statement of financial Position | | | | | | | (564 349 604) |

Geographic Segment Reporting

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

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57. Segment Information (continued)

Measurement of Specific segment Information

The accounting policies of the respective segments are the same as those prescribed in the summary of significant accounting policies and therefore the basis of measurement between the segments reporting and the annual financial statements are consistent.

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

Measurement of Specific segment Information

The non-segment included above is the reconciling between the totals of segment revenues, reported segment surplus or deficit, segment assets, segment liabilities to the corresponding municipality amounts as per the statement of financial performance and statement of financial position.

2021

| | Electrical Services | Refuse (Solid Waste) | Non-Segment | Total |
|--|---------------------|----------------------|--------------------|----------------------|
| Revenue | | | | |
| Revenue from non-exchange transactions | 5 893 710 | 2 173 913 | 814 041 721 | 822 109 344 |
| Revenue from exchange transactions | 465 439 413 | 56 562 628 | 70 781 874 | 592 763 715 |
| Fair Value Adjustment | - | - | 11 828 981 | 11 828 981 |
| Total segment revenue | 471 333 123 | 58 736 541 | 896 652 376 | 1 426 722 040 |
| Entity's revenue | | | | 1 426 722 040 |
| Expenditure | | | | |
| Employee Related Cost | 34 133 992 | 31 697 174 | 433 867 511 | 499 698 677 |
| Councillors remuneration | - | - | 28 255 080 | 28 255 080 |
| Bulk Purchases | 322 019 740 | - | - | 322 019 740 |
| Contracted Services | - | - | 16 720 778 | 16 720 778 |
| Depreciation and Amortisation | 7 193 797 | 8 220 815 | 149 421 794 | 164 836 406 |
| Finance costs | - | 1 610 958 | 27 531 108 | 29 142 064 |
| Operating Leases | 407 997 | 202 100 | 7 297 749 | 7 907 846 |
| General expenditure | 33 607 926 | 10 757 020 | 150 836 063 | 195 201 009 |
| Grants and Subsidies paid | - | - | 62 335 156 | 62 335 156 |
| Loss on disposal | - | - | 1 102 715 | 1 102 715 |
| Debt Impairment | - | - | 4 321 658 | 4 321 658 |

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

57. Segment Information (continued)

| | | | | |
|---|--------------------|------------|----------------------|----------------------|
| Total segment expenditure | 387 363 462 | 52 488 067 | 881 689 610 | 1 331 541 129 |
| Total segmental surplus/(deficit) | | | | 95 160 911 |
| Assets | | | | |
| Current Assets | - | - | 299 538 499 | 299 538 499 |
| Non-current assets | 476 354 505 | - | 2 021 176 025 | 2 497 530 530 |
| Total segment assets | 476 354 505 | - | 2 320 714 524 | 2 797 069 029 |
| Total assets as per Statement of financial Position | | | | 2 797 069 029 |
| Liabilities | | | | |
| Current Liabilities | - | - | (484 035 794) | (484 035 794) |
| Non-current liabilities | - | - | (90 224 427) | (90 224 427) |
| Total segment liabilities | - | - | (574 260 221) | (574 260 221) |
| Total liabilities as per Statement of financial Position | | | | (574 260 221) |

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

