

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021



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for the year ended 30 June 2021

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General Information

Legal form of entity

Municipality

Nature of business and principal activities

The primary function of Abaqulusi Local Municipality is to provide basic services i.e. water, electricity, sanitation and refuse to the Abaqulusi jurisdiction. Abaqulusi Local Municipality is controlled by an Acting Mayor, Speaker, seven Executive Committee members, the Accounting Officer and five Directors who contribute to the day to day management.

Mayoral committee

Acting Mayor

MC Maphisa

Speaker

M B Khumalo

Executive Committee Member

B L Zwane

Executive Committee Member

M A Hlatshwayo

Executive Committee Member

T Z Nkosi

Executive Committee Member

H B Khumalo

Executive Committee Member

P P Selepe

Executive Committee Member

I A De Kock

Executive Committee Member

N N Mdlalose

Councillors

M M Ntuli

S N Ndlela

B Ntombela

A M Masondo

D P Mazibuko

L R Mhlongo

N S Mgidi

T A Khumalo

L Dube

CN Mbatha

V C Mtshali

M B Mabaso

P M Mtshali

D J Mahlase

M T Lushaba

N Y Mdlalose

M Viktor

M M Mhlungu

T D Ndlovu

X J Zungu

M M Kunene

N B Manana

N A Kunene

M A Mazibuko

Z H Nxumalo

A P Mbatha

K M Ntuli

J J Jones

S S Siyaya

M P Williams

Z M Ngcobo

T Z Mavundla

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General Information

	C J Q Radebe T I Zungu N C Mkhwanazi
Grading of local authority	Grade 04 Medium Capacity
Chief Finance Officer (CFO)	H A Mahomed (Deceased) Ms ST Mhlongo (Acting since - 1 December 2020)
Accounting Officer	B E Ntazi
Business address	Cnr. of Mark and High Street Vryheid Kwa-Zulu Natal 3100
Postal address	P. O. Box 57 Vryheid Kwa-Zulu Natal 3100
Bankers	ABSA Bank of South Africa Limited Nedbank of South Africa Limited Standard Bank
Auditors	Auditor General of South Africa
Attorneys	COX & Partners Garlicke Bouwsfield

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

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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
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

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Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. My assumption is made based on the municipality receiving continuous grant funding from both National and Provincial Government. The municipality is dependent on revenue received from billing of property rates and services to the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that Abaqulusi Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality. (Refer to Note for going concern for the detailed analysis).

The municipality is currently under discretionary administration in accordance with section 139 of the constitution and section 137 of the MFMA. The discretionary intervention was implemented to assist the municipality deal with its long term financial sustainability.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the note entitled Remuneration of Councillors of these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed by:


B E Ntanzi
Municipal Manager

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020
Assets			
Current Assets			
Cash and cash equivalents	2	23 724 637	16 554 087
Receivables from non-exchange transactions	5&6	27 689 841	24 018 013
Receivables from exchange transactions	4&6	63 782 661	68 758 917
Inventories	3	11 837 241	10 885 924
VAT receivable	7	3 804 980	36 188 746
		130 839 360	156 405 687
Non-Current Assets			
Investment property	11	70 605 500	54 677 500
Property, plant and equipment	8	1 259 667 604	1 300 071 010
Intangible assets	9	271 324	364 264
Heritage assets	10	3 854 571	3 854 571
		1 334 398 999	1 358 967 345
Total Assets		1 465 238 359	1 515 373 032
Liabilities			
Current Liabilities			
Payables from exchange transactions	15	94 277 056	145 084 136
Consumer deposits	16	16 192 409	15 642 711
Employee benefit obligation	12	3 384 000	3 145 000
Unspent conditional grants and receipts	13	6 263 283	8 275 166
		120 116 748	172 147 013
Non-Current Liabilities			
Employee benefit obligation	12	50 099 001	57 375 000
Provisions	14	39 616 582	32 809 836
		89 715 583	90 184 836
Total Liabilities		209 832 331	262 331 849
Net Assets		1 255 406 028	1 253 041 183
Accumulated surplus		1 255 406 028	1 253 041 183
Total Net Assets		1 255 406 028	1 253 041 183

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Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020
Revenue			
Revenue from exchange transactions			
Service charges	18	283 810 668	265 355 690
Rendering of services	17	33 042	269 416
Rental of facilities and equipment	19	1 069 914	1 141 128
Interest on Overdue Accounts Service Charges		7 946 286	7 696 478
Agency services	21	2 791 006	3 619 838
Licences and permits	22	46 346	26 565
Other income	23	4 725 918	968 396
Interest received - investment	24	897 107	1 867 041
Actuarial gains	12	14 184 833	15 575 675
Total revenue from exchange transactions		315 505 120	296 520 227
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	98 951 181	93 287 784
Property rates - penalties imposed	25	4 995 664	4 942 566
Municipal Traffic Fines	26	8 502 396	6 033 796
Transfer revenue			
Government grants & subsidies	27	249 362 867	202 451 041
Fines, Penalties and Forfeits	20	103 995	218 643
Donation Transfer - Assets	8	-	1 720 511
Fair Valuation Adjustments	11	15 928 000	-
Total revenue from non-exchange transactions		377 844 103	308 654 341
Total revenue	17	693 349 223	605 174 568
Expenditure			
Employee related costs	28	(179 306 440)	(161 125 418)
Remuneration of councillors	29	(18 339 684)	(15 036 037)
Depreciation and amortisation	31	(84 770 735)	(48 465 393)
Impairment of non-cash generating assets	8	(3 824 598)	-
Finance costs	30	(7 985 905)	(1 561 611)
Lease rentals on operating lease	36	(6 589 325)	-
Debt Impairment	32	(64 771 275)	(79 263 336)
Bulk purchases	33	(191 593 530)	(227 699 098)
Contracted services	34	(97 257 822)	(73 521 255)
Loss on disposal of assets and liabilities	8	-	(79 000)
Fair value adjustments	11	-	(4 731 500)
Inventories losses/write-downs	3	(57 704)	(314 670)
General Expenses	35	(36 487 364)	(36 108 714)
Total expenditure		(690 984 382)	(647 906 032)
Surplus (deficit) for the year		2 364 841	(42 731 464)

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	1 398 885 614	1 398 885 614
Changes in net assets		
Surplus for the year	(42 731 464)	(42 731 464)
Prior year adjustments	(103 112 967)	(103 112 967)
Total changes	(145 844 431)	(145 844 431)
Balance at 01 July 2020	1 253 041 187	1 253 041 187
Changes in net assets		
Surplus for the year	2 364 841	2 364 841
Total changes	2 364 841	2 364 841
Balance at 30 June 2021	1 255 406 028	1 255 406 028
Note(s)		

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Cash Flow Statement

Figures in Rand	Note(s)	2021	2020
Cash flows from operating activities			
Receipts			
Taxation		84 440 179	67 863 437
Sale of goods and services		297 453 159	253 701 009
Grants		247 350 985	220 384 766
Interest income		897 107	1 867 041
		630 141 430	543 816 253
Payments			
Employee costs		(187 247 676)	(165 380 456)
Suppliers		(379 638 319)	(344 967 572)
Finance costs		(7 985 905)	(1 561 611)
		(574 871 900)	(511 909 639)
Net cash flows from operating activities	38	55 269 530	31 906 614
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(48 098 980)	(33 184 784)
Net increase/(decrease) in cash and cash equivalents		7 170 550	(1 278 171)
Cash and cash equivalents at the beginning of the year		16 554 087	17 832 258
Cash and cash equivalents at the end of the year	2	23 724 637	16 554 087

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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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	270 932 000	(2 000 000)	268 932 000	283 810 668	14 878 668	50.1
Rental of facilities and equipment	1 050 000	-	1 050 000	1 069 914	19 914	50.2
Interest received (trading)	-	-	-	7 946 286	7 946 286	
Licences and permits, Agency Services	5 148 000	-	5 148 000	2 837 351	(2 310 649)	50.3
Other income	1 472 000	2 300 000	3 772 000	4 725 918	953 918	50.4
Interest received - investment	1 785 000	(105 000)	1 680 000	897 107	(782 893)	50.5
Total revenue from exchange transactions	280 387 000	195 000	280 582 000	301 287 244	20 705 244	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	84 063 000	(1 200 000)	82 863 000	98 951 181	16 088 181	50.6
Fines, Penalties and Forfeits	24 254 000	-	24 254 000	13 602 055	(10 651 945)	50.7
Transfer revenue						
Government grants & subsidies	219 471 000	24 099 000	243 570 000	249 362 867	5 792 867	50.8
Fair Valuation Adjustment	-	-	-	15 928 000	15 928 000	50.9
Total revenue from non-exchange transactions	327 788 000	22 899 000	350 687 000	377 844 103	27 157 103	
Total revenue	608 175 000	23 094 000	631 269 000	679 131 347	47 862 347	
Expenditure						
Personnel	(158 854 000)	(444 000)	(159 298 000)	(179 306 437)	(20 008 437)	50.10
Remuneration of councillors	(19 490 000)	367 000	(19 123 000)	(18 339 684)	783 316	50.11
Depreciation and amortisation	(45 754 000)	-	(45 754 000)	(84 770 735)	(39 016 735)	50.12
Impairment loss/ Reversal of impairments	-	-	-	(3 824 598)	(3 824 598)	50.13
Finance costs	-	-	-	(7 985 905)	(7 985 905)	50.14
Debt Impairment	(5 612 000)	(17 439 000)	(23 051 000)	(64 771 275)	(41 720 275)	50.15
Bulk purchases	(191 904 000)	(14 896 000)	(206 800 000)	(191 593 530)	15 206 470	50.16
Contracted Services	(82 877 000)	2 445 000	(80 432 000)	(97 257 822)	(16 825 822)	50.17
General Expenses	(64 215 000)	18 795 000	(45 420 000)	(43 076 692)	2 343 308	50.18
Total expenditure	(568 706 000)	(11 172 000)	(579 878 000)	(690 926 678)	(111 048 678)	
Operating deficit	39 469 000	11 922 000	51 391 000	(11 795 331)	(63 186 331)	
Actuarial gains/losses	-	-	-	14 184 833	14 184 833	50.19
Inventories losses/write-downs	-	-	-	(57 704)	(57 704)	50.20
	-	-	-	14 127 129	14 127 129	
Surplus before taxation	39 469 000	11 922 000	51 391 000	2 331 798	(49 059 202)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	39 469 000	11 922 000	51 391 000	2 331 798	(49 059 202)	

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Accounting Policies

Figures in Rand	Note(s)	2021	2020
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1. Presentation of Annual Financial Statements

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

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

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Accounting Policies

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

STANDARDS APPROVED AND EFFECTIVE FOR 2020/21 FINANCIAL YEAR

The following GRAP standards have been approved and effective to the municipality for the 2020/21 financial year:

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of Changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events After the Reporting Date
GRAP 16 Investment Property
GRAP 17 Property Plant and Equipment
GRAP 18 Segment Reporting
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 20 Related Party Disclosures
GRAP 21 Impairment of Non -Cash Generating Assets
GRAP 23 Revenue from Non- Exchange Transactions (Taxes and Transfers)
GRAP 24 Presentation of Budget Information in Financial Statements
GRAP 25 Employee Benefits
GRAP 26 Impairment of Cash-Generating Assets
GRAP 27 Agriculture
GRAP 31 Intangible Assets
GRAP 32 Service Concession Arrangements: Grantor
GRAP 34 Separate Financial Statements
GRAP 35 Consolidated Financial Statements
GRAP 36 Investments in Associates and Joint Ventures
GRAP 37 Joint Arrangements
GRAP 38 Disclosure of Interests of Other Entities
GRAP 100 Discounted Operations
GRAP 103 Heritage Assets
GRAP 104 Financial Instruments
GRAP 105 Transfer of Functions Between Entities Under Common Control
GRAP 106 Transfer of Functions Between Entities Not Under common Control
GRAP 107 Mergers
GRAP 108 Statutory Receivables
GRAP 109 Accounting by Principals and Agents
GRAP 110 Living and Non-Living resources

INTERPRETATIONS OF STANDARDS OF GRAP APPROVED AND EFFECTIVE FOR 2020/21 FINANCIAL YEAR

IGRAP 1 Applying the Probability Test on Initial Recognition of Revenue
IGRAP 2 Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3 Determining whether an arrangement contains a lease
IGRAP 4 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
IGRAP 5 Applying the restatement approach under the Standard of GRAP on financial reporting in hyperinflationary economies
IGRAP 6 Loyalty Programmes
IGRAP 7 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8 Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9 Distributions of Non-cash Assets to Owners
IGRAP 10 Assets Received from Customers
IGRAP 13 Operating Leases – Incentives
IGRAP 14 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15 Revenue – Barter Transactions Involving Advertising Services
IGRAP 16 Intangible Assets – Website Costs
IGRAP 17 Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
IGRAP 18 Recognition and Derecognition of Land
IGRAP 19 Liabilities to Pay Levies
IGRAP 20 Accounting for Adjustments to Revenue

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Accounting Policies

AUTHORITATIVE GUIDELINES APPROVED AND EFFECTIVE FOR 2020/21 FINANCIAL YEAR

Guideline on Accounting for Arrangements Undertaken in terms of the National Housing Programme

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Figures contained in the Annual Financial Statements are rounded off to the nearest whole number.

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

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

Revenue Recognition

Accounting policy 1.15 & 1.16 on Revenue from Exchange Transactions and Revenue from Non-Exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality. In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Impairment testing

Accounting policy 1.7 Financial Instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

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Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of Property Plant & Equipment

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality

Impairment

Write down of property plant and equipment, intangible assets and inventories. 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. The recoverable (service) 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 assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Post-retirement benefits

As described in accounting policy 1.14 Employee Benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-Retirement Health Benefit Obligations and Long Service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25 Employee Benefits.

Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 12.

Recognition and Derecognition of Land

In some instances the municipality is not the legal owner or the custodian of land appointed in terms of legislation, but assessed that it controls such land.

In some instances the municipality is the legal owner, or the custodian of land appointed in terms of legislation, but concludes that it does not control such land.

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Significant judgements applied are based on the nature of the agreement and the roles and responsibilities as defined in the agreements.

Additional information is disclosed in Note 52.

Impairment of statutory receivables

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

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

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

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Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Accounting for adjustments to revenue

Determining whether an adjustment to revenue charged in terms of legislation or similar means is a correction of an error or a change in an accounting estimate requires the application of judgement by management. When adjustments to revenue already recognised arise from new information that becomes known to the municipality, the following considerations are applied to determine whether the adjustment to revenue already recognised is a correction of an error or a change in an accounting estimate:

- (a) If information becomes known to the municipality, and the municipality could reasonably have been expected to know of the information and/or the information used was incorrect, the adjustment to revenue is likely to be a correction of an error.
- (b) If information becomes known to the municipality, but the municipality could not reasonably have been expected to know of this information when the revenue was charged, the adjustment to revenue is likely to be a change in an accounting estimate.

Accounting for adjustments to revenue that correct an error or prior period error

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for an adjustment to revenue already recognised, including interest and penalties, as the correction of an error or prior period error where the entity:

- (a) has not followed a proper due process to promulgate the tariff, basis, percentage or formula to charge the revenue; and/or
- (b) incorrectly applied the tariff, basis, percentage or formula in charging revenue.

Errors discovered within the reporting period which relates to that period are corrected before the annual financial statements are authorised for issue. The principles in GRAP 3 are applied to account for the adjustment to revenue already recognised as a result of the correction of a prior period error.

Accounting for adjustments to revenue as a change in an accounting estimate

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for any adjustment to revenue already recognised, including interest and penalties, as a change in an accounting estimate if changes occur in the circumstances that led to the recognition of the revenue.

The principles in GRAP 3 are applied to account for a change in an accounting estimate.

Offsetting

Assets, liabilities, revenue and expenses have not been offset, except when offsetting is required or permitted by a standard of GRAP

Provisions

Provisions have been raised by the municipality for rehabilitation of the landfill site in accordance with IGRAP2. Additional disclosure of these estimates of provisions are included in note to the Financial Statements.

1.5 Investment property

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

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

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

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

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Accounting Policies

1.5 Investment property (continued)

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

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

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.

Fair value

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

This entails determining the fair value of investment properties on a regular basis. To the extent that the fair value is applied to investment property and is not depreciated.

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.

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

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

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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1.6 Property, plant and equipment (continued)

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.

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. 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. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives. Depreciation only commences when the asset is available for use, unless stated otherwise.

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

Item	Depreciation method	Average useful life
Infrastructure		
• Roads and Stormwater	Straight-line	05 -80 years
• Electricity	Straight-line	03 -50 years
• Sanitation	Straight-line	15 -100 years
• Water	Straight-line	05 -80 years
• Landfill Sites	Straight-line	15- 50 years
Community		
• Sport and recreational facilities	Straight-line	05 -50 years
• Cemeteries	Straight-line	05 -50 years
• Halls	Straight-line	05 -50 years
• Libraries	Straight-line	05 -50 years
• Parks	Straight-line	05 -50 years
• Fire Station	Straight-line	05 -50 years
• Clinics	Straight-line	05 -50 years
• Sports Fields	Straight-line	15 -30 years
• Stadium	Straight-line	05 -30 years
Plant and machinery	Straight-line	02 - 15 years
Motor vehicles	Straight-line	05 -15 years
Office equipment	Straight-line	03 -10 years
IT equipment	Straight-line	03 -07 years

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

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

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

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

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

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Accounting Policies

1.6 Property, plant and equipment (continued)

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).

1.7 Intangible assets

An asset is identifiable if it either:

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

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

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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	05 -10 years

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1.7 Intangible assets (continued)

Intangible assets are derecognised:

- 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 intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 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.

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

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 6 Heritage assets

Heritage assets are not depreciated but the municipality will assess at each reporting date based on external and internal sources of information whether there is an indication that it may be impaired. Transfers from heritage assets shall be made when and only when the particular asset no longer meets the definition of a heritage asset.

Likewise transfer to heritage assets shall be made when and only when the asset meets the definition of a heritage asset. Heritage assets which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives, as reflected below:

Memorials & Statues	- indefinite life
Heritage Sites	- indefinite life
Museums	- indefinite life
Art Works	- indefinite life

Although a heritage asset is not depreciated, the asset is assessed for impairment at each reporting date to disclose whether there is an indication that it may be impaired.

Initial measurement

Heritage assets are measured at cost.

Subsequent measurement

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

1.9 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.

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Accounting Policies

1.9 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from Non-exchange transactions	Financial asset measured at amortised cost
Cash & 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
Payables from exchange transactions	Financial liability measured at amortised cost

1.10 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.

1.11 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.

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1.11 Leases (continued)

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 .

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.12 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.

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

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

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

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

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

1.13 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.

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Accounting Policies

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

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.

Designation

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

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

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

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

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

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.

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Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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.

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1.14 Compound instruments

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

1.15 Employee benefits

GRAP 25 on employee benefits is to provide accounting principles for amounts or benefits due to employees, their spouses or third parties when employees have rendered services to the municipality, and the rendering of those services entitles employees to certain benefits.

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

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1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

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1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

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1.15 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

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Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

Other post retirement obligations

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

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

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

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

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

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Accounting Policies

1.15 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.

1.16 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.

AbaQulusi Local Municipality

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Accounting Policies

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

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

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

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

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

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

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

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

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and 1.13.

If the related asset is measured using the revaluation model:

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

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

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

1.17 Commitments

In terms of GRAP 17, contractual commitments are disclosed for all assets. The commitment is measured at the value of the contract less amounts paid until year end. Where contracts or letters of awards have been issued, this is classified as an approved and contracted commitment.

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.

1.18 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.

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Accounting Policies

1.18 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Service charges for electricity are based on consumption by consumers as is recorded on each consumer's meter.

Meters are read each month and the revenue is recognised in the period in which the invoice is raised.

Provisional estimates of consumption are made in periods where meter readings have not been able to be carried out. The revenue from these provisional readings is also recognised as revenue when invoiced.

Adjustments to provisional estimates and recognition of the amended revenue arising as a result, are made in the invoicing period in which meters are read.

Revenue from the sale of electricity prepaid meter cards is recognised on a monthly basis in arrears.

Refuse charges are based on the application of the approved tariff to each property that has improvements, the category of property usage and the number of refuse containers on each property regardless of whether or not containers are emptied during the month.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant services has been rendered and the fee has been charged or licences and permits have been issued.

Interest revenue is recognised using the effective interest rate method. Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement

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Accounting Policies

1.18 Revenue from exchange transactions (continued)

Interest, Service Fees

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

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

1.19 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.

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

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

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

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.

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

AbaQulusi Local Municipality

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Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Recognition

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

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

Measurement

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

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

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.

Transfers

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of revenue can be measured reliably and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

When government remit grants on a re-imbursment basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with. 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.

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.

1.20 Accounting by principals and agents

Identification

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Accounting Policies

1.20 Accounting by principals and agents (continued)

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.

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.

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1.21 Comparative figures

Prior year comparatives

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

1.22 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.

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

1.23 Fruitless and wasteful expenditure

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

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

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

1.25 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.26 Internal reserves

1.27 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.28 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);

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Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.28 Segment information (continued)

- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

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

Measurement

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

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

1.29 Budget information

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

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

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

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

The budget for the economic 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.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.30 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.

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.

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

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1.31 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.

1.32 Cash & Cash Equivalents

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.33 Changes in accounting policies, estimates, errors

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening. The provisions of IGRAP 1 have been applied prospectively in line with IGRAP1.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	5 320	6 304
Bank balances	5 557 399	1 891 979
Short-term deposits	18 161 918	14 655 804
	23 724 637	16 554 087

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
ABSA Bank - Cheque Account - 100 500 1109	3 275 016	1 961 650	29 029	3 432 449	1 294 177	29 029
Nedbank Bank - Current Account - 106 737 9770	2 131 838	3 900 049	4 396 218	2 124 951	597 802	4 701 440
STANDARD Bank 32 DAY Account - Account Number 06 846 176 3-003	4 501	4 433	4 318	4 501	4 433	4 318
STANDARD Bank Money Market Account Number 06 846 176 3-011	68 270	66 381	63 785	68 270	66 381	63 785
ABSA Call Deposit Account Number '9195460586	243	240	527	243	240	527
ABSA Call Deposit Account Number 9122861337	2 251	2 219	2 459	2 251	2 219	2 459
ABSA LIQUIDITY Account Number 9363389794	6 235 914	-	-	6 235 914	-	-
NEDBANK CALL DEPOSIT Account Number 03/7165020780/000030	4 011 632	3 880 975	1 259	4 011 632	3 880 975	1 259
NEDBANK CALL DEPOSIT Account Number 03/7165020780/000039	3 711	2 626 865	5 887 591	3 711	2 626 865	5 887 591
NEDBANK CALL DEPOSIT Account Number 03/7165020780/000040	4 036	498 395	529	4 036	498 395	529
NEDBANK CALL DEPOSIT Account Number 03/7165020780/000042/44	724 294	700 704	637 395	724 294	700 704	637 395
NEDBANK CALL DEPOSIT Account Number '03/7165020780/000043	7 107 067	6 875 592	6 497 621	7 107 067	6 875 592	6 497 621
Total	23 568 773	20 517 503	17 520 731	23 719 319	16 547 783	17 825 953

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
3. Inventories		
Water for distribution - Inventory	74 525	74 525
Stores, materials and fuels	11 820 420	11 126 069
	11 894 945	11 200 594
Inventories (write-downs)	(57 704)	(314 670)
	11 837 241	10 885 924

Water for distribution- Inventory

Opening balance		74 525	65 026
Inventory Write down	33	(57 704)	-
Inventory Write-up		-	9 499
Closing balance		16 821	74 525

4. Receivables from exchange transactions

Consumer debtors - Electricity		20 492 379	9 204 177
Consumer debtors - Water		17 069 419	10 096 292
Consumer debtors - Sewerage		8 839 573	13 467 450
Consumer debtors - Refuse		6 013 306	9 888 706
Consumer debtors - Interest Overdue Accounts		-	-
Sundry Debtors		6 789 857	6 999 341
Consumer Debtors - Other		4 578 127	19 102 951
		63 782 661	68 758 917

Breakdown Gross Consumers Debtors- Other

Abeyance		427 923	283 080
Market Agency		110 271	115 154
Property Rental Debtors		5 211 296	4 606 734
Agreements		17 670 005	6 933 193
Service charges		421 408	423 776
Less Impairment		(19 262 776)	-
		4 578 127	12 361 937

The Gross Consumer Debtors Other relates to payment agreements with customers for arrear debt relating to Electricity, Water, Sanitation and Refuse.

		-	-
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Reconciliation of provision for impairment of Receivables from exchange transactions

Opening balance		107 582 943	89 111 817
Provision for impairment		47 246 637	18 471 126
		154 829 580	107 582 943

5. Receivables from non-exchange transactions

Municipal Traffic Fines		3 923 456	4 944 435
Sundry Debtors		217 409	217 409
Other Receivables		243 505	-
Consumer debtors - Rates		23 305 471	18 856 169
		27 689 841	24 018 013

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
5. Receivables from non-exchange transactions (continued)		
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Property Rates Taxes	23 305 471	18 856 169
Municipal Traffic Fines	3 923 456	4 944 435
	27 228 927	23 800 604
Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows:		
Insurance Debtor	217 409	217 409
Overpayment to Creditor	203 995	-
Cashier Shortages	39 510	-
	460 914	217 409
Total receivables from non-exchange transactions	27 689 841	24 018 013

Statutory receivables general information

Transaction(s) arising from statute

Property Rates Taxes are imposed in accordance with the Municipal Property Rates Act 6 of 2004. The Act gives the Municipality to levied Property Rates taxes on all properties within the Municipal jurisdiction.

Traffic fines are issued to offenders in terms of the Criminal Procedures Act, hence this is therefore recognised as a statutory receivable. The receivable is calculated by determining the value of the fine to be paid on initial recognition, and accounting for subsequent measurement by taking into account reductions and discounts made to the value of the fine payable in terms of the court of law. No interest is charged on outstanding fines, and any additional penalties applied by the court is paid by the offender to the court directly, and is therefore not considered to be revenue for the municipality.

Determination of transaction amount

Municipal Property Rates taxes is determined by using the municipal property valuation roll and is imposed on a Property that is within the Municipal Jurisdiction on usage.

Municipal Traffic fines are determined based on the tariffs gazetted for offences in accordance with the National Road Traffic Act.

Basis used to assess and test whether a statutory receivable is impaired

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The Municipality assesses the probability of collecting revenue for traffic fines that are in arrears. Traffic fines will be impaired when the possibility of collecting the fines cannot be ascertained and where the prospects of a successful prosecution of an offender are not certain. The municipality also considers that offenders may make legal representation to have the fines reduced or voided. Therefore, the collection rate average over a 3 year period is used to determine future cashflows against outstanding fines, and the difference between future cash flows and outstanding fines will be considered as impaired.

Reconciliation of provision for impairment for statutory receivables - Traffic Fines

Opening balance	48 155 750	42 633 812
Provision for impairment	9 256 198	5 521 938
	57 411 948	48 155 750

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are past due are not considered to be impaired as these receivables arise from specific transactions which are recoverable. At 30 June 2021, R 1 043 721 (2020: R 788 128) were past due but not impaired.

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

3 months past due	1 043 721	788 128
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Receivables from non-exchange transactions Traffic Fines Gross Balance

Current (0 -30 days)	686 330	-
31 - 60 days	551 050	-
61 - 90 days	54 300	-
91 - 120 days	227 700	219 800
121 - 365 days	6 715 816	5 543 696
> 365 days	53 100 208	47 336 689
	61 335 404	53 100 185

Reconciliation of provision for impairment for statutory receivables - Property Rates

Opening balance	60 130 791	-
Provision for impairment	12 271 707	60 130 791
	72 402 498	60 130 791

Reconciliation of Total Impairment - Receivables from Non-Exchange Transactions

Opening Balance	108 286 541	42 633 812
Provision for Impairment	21 527 905	65 652 729
	129 814 446	108 286 541

6. Consumer debtors disclosure

Gross balances

Consumer debtors - Rates	95 707 975	78 986 960
Consumer debtors - Electricity	33 735 705	34 506 338
Consumer debtors - Water	51 331 281	35 226 619
Consumer debtors - Sewerage	47 291 882	38 238 013
Consumer debtors - Refuse	34 477 531	29 069 801
Consumer debtors - Interest Overdue Accounts	15 642 764	7 696 478
Sundry Debtors	6 789 857	6 999 341
Consumer Debtors -Other	23 840 903	19 102 951
Land Sales Debtor	5 502 319	5 502 319
	314 320 217	255 328 820

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
6. Consumer debtors disclosure (continued)		
Less: Allowance for impairment		
Consumer debtors - Rates	(72 402 504)	(60 130 791)
Consumer debtors - Electricity	(13 243 326)	(25 302 161)
Consumer debtors - Water	(34 261 862)	(25 130 327)
Consumer debtors - Sewerage	(38 452 309)	(24 770 563)
Consumer debtors - Refuse	(28 464 225)	(19 181 095)
Consumer debtors - Interest Overdue Accounts	(15 642 764)	(7 696 478)
Consumer debtors - Other	(19 262 776)	-
Land Sales Debtor	(5 502 319)	(5 502 319)
	(227 232 085)	(167 713 734)
Net balance		
Consumer debtors - Rates	23 305 471	18 856 169
Consumer debtors - Electricity	20 492 379	9 204 177
Consumer debtors - Water	17 069 419	10 096 292
Consumer debtors - Sewerage	8 839 573	13 467 450
Consumer debtors - Refuse	6 013 306	9 888 706
Consumer debtors - Interest Overdue Accounts	-	-
Sundry Debtors	6 789 857	6 999 341
Consumer Debtors -Other	4 578 127	19 102 951
	87 088 132	87 615 086
Rates		
Current (0 -30 days)	6 464 142	5 444 621
31 - 60 days	2 987 565	2 698 651
61 - 90 days	2 630 185	2 370 611
91 - 120 days	2 454 124	2 422 129
121 - 365 days	12 826 315	13 712 068
> 365 days	68 345 644	52 338 880
	95 707 975	78 986 960
Electricity		
Current (0 -30 days)	11 674 490	8 152 621
31 - 60 days	1 809 044	2 091 199
61 - 90 days	1 085 419	1 561 622
91 - 120 days	887 187	1 455 699
121 - 365 days	3 792 537	2 495 715
> 365 days	14 487 027	18 749 482
	33 735 704	34 506 338
Water		
Current (0 -30 days)	4 891 567	1 965 801
31 - 60 days	3 216 639	1 355 307
61 - 90 days	2 641 041	924 842
91 - 120 days	3 501 774	932 012
121 - 365 days	7 032 406	4 695 355
> 365 days	30 047 854	25 353 302
	51 331 281	35 226 619

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
6. Consumer debtors disclosure (continued)		
Interest Overdue Accounts		
Current (0 -30 days)	678 199	514 733
31 - 60 days	668 385	538 368
61 - 90 days	665 955	520 390
91 - 120 days	661 622	630 640
121 - 365 days	12 968 602	5 492 348
	15 642 763	7 696 479
Sewerage		
Current (0 -30 days)	2 644 267	2 236 728
31 - 60 days	1 546 642	1 481 760
61 - 90 days	1 356 622	1 220 481
91 - 120 days	1 311 115	1 136 406
121 - 365 days	7 451 710	6 237 421
> 365 days	32 981 525	25 925 217
	47 291 881	38 238 013
Refuse		
Current (0 -30 days)	1 744 630	1 583 829
31 - 60 days	1 035 783	1 002 842
61 - 90 days	936 310	892 592
91 - 120 days	878 502	833 727
121 - 365 days	5 371 257	4 657 254
> 365 days	24 481 048	20 099 557
	34 447 530	29 069 801
Consumer Debtors - Other		
Current (0 -30 days)	765 763	597 442
31 - 60 days	393 861	348 568
61 - 90 days	965 334	285 804
91 - 120 days	1 160 646	321 437
121 - 365 days	1 733 602	1 422 149
> 365 days	18 821 541	16 127 551
	23 840 747	19 102 951

Statutory receivables general information

7. VAT receivable

VAT	3 804 980	36 188 746
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The Municipality submits VAT 201 returns on a cash basis, whilst the amount disclosed in the Annual Financial Statements reflects VAT not yet paid or received from SARS.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	197 235 313	-	197 235 313	197 235 313	-	197 235 313
Buildings	146 114 928	(70 220 594)	75 894 334	146 114 927	(67 235 442)	78 879 485
Plant and machinery	6 160 180	(5 029 451)	1 130 729	6 026 268	(4 956 847)	1 069 421
Furniture and Equipment	3 165 122	(2 858 664)	306 458	3 165 122	(2 744 986)	420 136
Motor vehicles	14 103 661	(6 641 442)	7 462 219	13 021 601	(5 075 585)	7 946 016
IT equipment	4 815 947	(4 272 121)	543 826	4 784 529	(4 130 321)	654 208
Infrastructure	2 559 803 197	(1 731 687 236)	828 115 961	2 534 927 949	(1 656 212 992)	878 714 957
Community	274 037 261	(137 719 015)	136 318 246	258 363 682	(131 012 273)	127 351 409
Landfill Sites	68 166 307	(55 505 789)	12 660 518	61 863 542	(54 063 477)	7 800 065
Total	3 273 601 916	(2 013 934 312)	1 259 667 604	3 225 502 933	(1 925 431 923)	1 300 071 010

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Transfers received	Transfers Made	Depreciation	Impairment loss	Total
Land	197 235 313	-	-	-	-	-	197 235 313
Buildings	78 879 485	-	-	-	(2 337 620)	(647 533)	75 894 334
Plant and machinery	1 069 421	133 913	-	-	(48 456)	(24 149)	1 130 729
Furniture and fixtures	420 136	-	-	-	(113 678)	-	306 458
Motor vehicles	7 946 016	1 082 059	-	-	(1 565 757)	(99)	7 462 219
IT equipment	654 208	31 417	-	-	(141 802)	-	543 826
Infrastructure	878 714 957	24 875 248	33 628 895	(33 628 895)	(74 228 714)	(1 245 529)	828 115 961
Community	127 351 409	15 673 578	11 842 723	(11 842 723)	(4 799 455)	(1 907 288)	136 318 246
Landfill Sites	7 800 065	6 302 765	-	-	(1 442 312)	-	12 660 518
	1 300 071 010	48 098 980	45 471 618	(45 471 618)	(84 677 794)	(3 824 598)	1 259 667 604

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers received	Transfers to PPE	Depreciation	Total
Land	191 565 313	-	-	5 670 000	-	197 235 313
Buildings	82 068 250	1 204 500	-	-	(4 393 265)	78 879 485
Plant and machinery	1 480 527	-	-	-	(411 106)	1 069 421
Furniture and fixtures	640 793	8 915	-	-	(229 572)	420 136
Motor vehicles	7 083 752	-	1 720 511	-	(858 247)	7 946 016
IT equipment	1 105 735	-	-	-	(451 527)	654 208
Infrastructure	892 744 271	20 992 008	-	-	(35 021 322)	878 714 957
Community	116 646 805	14 403 598	-	-	(3 698 994)	127 351 409
Landfill Sites	9 374 083	1 525 697	-	-	(3 099 715)	7 800 065
	1 302 709 529	38 134 718	1 720 511	5 670 000	(48 163 748)	1 300 071 010

Pledged as security

No Property, Plant & Equipment was pledge as security for Financial year ended 30 June 2021:

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

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Road Paving - New Lakeside - Phase 2: Tender No:8/2/1/383 - Contract date extended to 23/03/2020 and contractor fined for poor performance	3 509 087	3 509 087
Tarring of Bhekumthetho Road Phase 2: Tender No: 8/2/1/403 - Construction 90%. Contract date extended to 09/10/2021	5 065 653	-
Tarring of Road from KwaBalele to next to Police Station - Tender No: 8/2/1/407 - Contract date extended to 14/10/2020 and contractor fined for poor performance	7 934 776	4 156 796

16 509 516 **7 665 883**

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Total
Opening balance	42 111 751	24 110 450	66 222 201
Additions/capital expenditure	23 536 163	15 673 578	39 209 741
Transfer to PPE	(33 628 895)	(11 842 723)	(45 471 618)
	32 019 019	27 941 305	59 960 324

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	35 062 895	18 067 306	53 130 201
Additions/capital expenditure	21 859 836	14 452 039	36 311 875
Transfer to PPE	(14 810 980)	(8 408 895)	(23 219 875)
	42 111 751	24 110 450	66 222 201

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	7 787 219	6 578 812
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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.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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9. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 484 741	(2 213 417)	271 324	2 484 740	(2 120 476)	364 264

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software, other	364 264	(92 941)	271 324

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software, other	665 909	(301 645)	364 264

AbaQulusi Local Municipality

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10. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	3 854 571	-	3 854 571	3 854 571	-	3 854 571

Reconciliation of heritage assets 2021

	Opening balance	Total
Historical buildings	3 854 571	3 854 571

Reconciliation of heritage assets 2020

	Opening balance	Total
Historical buildings	3 854 571	3 854 571

11. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	70 605 500	-	70 605 500	54 677 500	-	54 677 500

AbaQulusi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand 2021 2020

11. Investment property (continued)

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	54 677 500	15 928 000	70 605 500

Reconciliation of investment property - 2020

	Opening balance	Other changes, movements	Fair value adjustments	Total
Investment property	65 158 000	(5 749 000)	(4 731 500)	54 677 500

Pledged as security

No investment property was pledged as security against any liability.

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

The effective date of valuation was 30 June 2021. Revaluations were performed by an Independent Valuer Umhlaba Geomatics Incorporated, who has experience in location and category of the Investment property being valued. The Valuation was based on open market value for existing use of Investment Property which are used for Rentals and Capital Appreciation. The Municipality has Investment Properties in the Towns of Vryheid, Bhhekuzulu, Mondlo A, Mondlo B and Louwsburg

Amounts recognised in surplus or deficit

Rental revenue from Investment property	1 069 914	1 141 128
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12. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded - Post Retirement Medical Aid Liability	(43 185 001)	(51 097 000)
Present value of the defined benefit obligation-wholly unfunded - Long Service Award Liability	(10 298 000)	(9 423 000)
	(53 483 001)	(60 520 000)
Non-current liabilities	(50 099 001)	(57 375 000)
Current liabilities	(3 384 000)	(3 145 000)
	(53 483 001)	(60 520 000)

The Provision for Post Employment Medical Aid Subsidy, was determined in accordance with GRAP 25 Accounting Standard, which requires the liability to be measured using the Projected Unit Credit Method, at valuation date as at 30 June 2021.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
12. Employee benefit obligations (continued)		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	60 520 325	69 464 000
Net expense recognised in the statement of financial performance	(7 037 325)	(8 943 675)
	53 483 000	60 520 325
Net expense recognised in the statement of financial performance		
Current service cost	2 826 085	3 704 000
Interest cost	7 347 960	7 077 000
Actuarial (gains) losses	(14 184 833)	(15 575 675)
Payment made during the year	(3 026 537)	(4 149 000)
	(7 037 325)	(8 943 675)

AbaQulusi Local Municipality

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Notes to the Annual Financial Statements

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12. Employee benefit obligations (continued)

Key assumptions used

The following assumptions was used at the reporting date for Post Employment Medical Aid Subsidy:

Assumption	Value p.a.
Discount rate	9.88%
Health care cost inflation rate	6.72%
Net-of-health-care-cost-inflation discount rate	2.96%
Maximum subsidy inflation rate	4.67%
Net-of-maximum-subsidy-inflation discount rate	4.98%

Key Assumption used in the valuation of Post Employee Medical Aid Benefits for the period end 30 June 2020, was on the Yield and Norminal Curves, and therefore comparison between the assumption used at the current and previous valuation dates is detailed below. The table is intended to provided the user with a comparable basis since rates was not clearly defined in the 30 June 2020 valuations.

Discount rate	9.88	10.33
Health care cost inflation rate	6.72	7.38
Net-of-health-care-cost-inflation discount rate	2.96	2.75
Maximum subsidy inflation rate	4.67	7.38
Net-of maximum-subsidy-inflation discount rate	4.98	2.75

The table below summarises the eligible employees:

	Female	Male	Total
Number of in-service members	104	139	243
Number of in-service non-members	47	134	181
Total employees	151	273	424
Average age	42.9	46.6	45.3
Average past service	10.7	13.4	12.4
Proportion with a spouse dependant (members)	25%	45%	37%

Key Demographic Assumption	Value
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AbaQulusi Local Municipality

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Notes to the Annual Financial Statements

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12. Employee benefit obligations (continued)

Average retirement age	63
Continuation of membership at retirement	75%
Proportion with a spouse dependent at retirement	60%
Proportion of in-service non-members joining a scheme by retirement and continuing with the subsidy at retirement	15%
Mortality during employment	SA 85-90
Mortality post-employment	PA(90) -1 with a 1% mortality improvement p.a. from 2010
Withdrawal from service (sample annual rates)	Age 20 to 55+ (Range 13% to 0%)

Withdrawal Rates

Age	Females	Males
20	13%	13%
25	13%	13%
30	11%	11%
35	8%	8%
40	6%	6%
45	4%	4%
50	3%	3%
55+	0%	0%

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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12. Employee benefit obligations (continued)

Long Service Award Liability

It is the policy of the municipality to provide Long Service Awards to eligible employees. The municipality makes a provision for Long Service Awards in accordance with GRAP 25. The municipality offers employees Long Service Awards for every five years of service completed, from five years of service to 45 years of service, inclusive.

The Long Service Award is an unfunded arrangement and the municipality has not set aside separate assets to meet this liability. The table below describes the benefits awards:

Completed Service (In Years)	Long Service Award (% of Annual Earnings)	Description
5	4.0%	10 / 250 x annual earnings
10	8.0%	20 / 250 x annual earnings
15, 20, 25, 30, 35, 40, 45	12.0%	30 / 250 x annual earnings

In addition, employees receive a cash award of R 10,000 at their 25 year service anniversaries. This value is fixed and no planned future increases are taken into during the valuation of the Liability. Below are the key assumptions that was used to calculate the Financial Liability.

Key Financial Assumption	Value p.a.
Discount rate	8.98%
General earnings inflation rate (long-term)	5.68%
Net effective discount rate	3.13%

The 1 July 2021 general earnings increase was still under consideration at the time of valuation. According to Circular 23 of 2021, the increase is expected to be between 3.5% and 4.5%. Therefore, an assumed increase of 4% as at 1 July 2021 has been included in the earnings used in this valuation. The next general earnings increase was assumed to take place on 1 July 2022.

Eligible Employees

	Female	Male	Total
Number of eligible employees	151	273	424
Average annual earnings	R 223,145	R 215,808	R 218,421
Earnings-weighted average age	43.5	46.7	45.6
Earnings-weighted average past service	11.7	13.4	12.8

AbaQulusi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Gijima Grant	38 830	38 830
Land Use Management Grant	229 850	229 850
MSIG - Upgrading Emondlo Billing System	3 166	3 166
Provincial Housing Grant	167 393	285 383
COGTA -Emergency Water Massification Grant	2 569	2 569
Provincial Library Grant	2 159 047	2 871 206
Municipal Infrastructure Grant	-	1 262 429
Provincial Housing Deeds Restoration Programme	3 662 428	3 531 771
COGTA Thusong Centre Grant	-	49 962
	6 263 283	8 275 166

Movement during the year

Balance at the beginning of the year	8 275 166	18 216 380
Additions during the year	58 707 292	69 950 551
Income recognition during the year	(60 719 175)	(79 891 765)
	6 263 283	8 275 166

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

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

14. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Total
Environmental rehabilitation	31 970 299	6 302 765	38 273 064
Provision for performance bonus - Senior Managers	839 537	503 981	1 343 518
	32 809 836	6 806 746	39 616 582

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Environmental rehabilitation	30 444 602	1 525 697	31 970 299
Provision for performance bonus - Senior Managers	839 537	-	839 537
	31 284 139	1 525 697	32 809 836

The determine of the cost required for the rehabilitation of the Vryheid and Coronation was done as at 30 June 2021. The cost estimate is based on 25% Preliminary and General (P&G) and a 10% contingency of the construction amount for unforeseen items.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
15. Payables from exchange transactions		
Trade payables	15 695 688	86 386 776
Accruals	29 435 641	35 982 095
Retentions	9 600 140	8 387 612
Accrued leave pay	13 780 518	10 529 906
Unallocated Deposits	13 882 529	1 153 135
Advance Payments received from Consumers	7 377 849	2 644 612
Salary Control Account	4 504 691	-
	94 277 056	145 084 136
16. Consumer deposits		
Electricity	14 276 738	13 933 183
Water	1 421 008	1 375 742
Hall Rental Deposits	494 663	333 786
	16 192 409	15 642 711
17. Revenue		
Rendering of services	33 042	269 416
Service charges	283 810 668	265 355 690
Rental of facilities and equipment	1 069 914	1 141 128
Interest received (trading)	7 946 286	7 696 478
Agency services	2 791 006	3 619 838
Licences and permits	46 346	26 565
Other income	4 725 918	968 396
Interest received - investment	897 107	1 867 041
Property rates	98 951 181	93 287 784
Property rates - penalties imposed	4 995 664	4 942 566
Municipal Traffic Fines	8 502 396	6 033 796
Government grants & subsidies	249 362 867	202 451 041
Fines, Penalties and Forfeits	103 995	218 643
Donation Transferred - Asset	-	1 720 511
Other transfer revenue 2	15 928 000	-
	679 164 390	589 598 893
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	283 810 668	265 355 690
Rendering of services	33 042	269 416
Rental of facilities and equipment	1 069 914	1 141 128
Interest received (trading)	7 946 286	7 696 478
Agency services	2 791 006	3 619 838
Licences and permits	46 346	26 565
Other income	4 725 918	968 396
Interest received - investment	897 107	1 867 041
	301 320 287	280 944 552

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
17. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	98 951 181	93 287 784
Property rates - penalties imposed	4 995 664	4 942 566
Municipal Traffic Fines	8 502 396	6 033 796
Transfer revenue		
Government grants & subsidies	249 362 867	202 451 041
Fines, Penalties and Forfeits	103 995	218 643
Donation Transferred Assets	-	1 720 511
Other transfer revenue 2	15 928 000	-
	377 844 103	308 654 341
18. Service charges		
Sale of electricity	190 233 137	189 791 338
Sale of water	44 344 251	32 615 163
Solid waste	17 865 848	16 192 876
Sewerage and sanitation charges	31 367 432	26 756 313
	283 810 668	265 355 690
19. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	1 069 914	1 141 128
20. Fines, Penalties and Forfeits		
Illegal Connections Fines	102 348	213 496
Overdue Books Fines	1 647	5 147
	103 995	218 643
21. Agency services		
Driver's Licenses	72 493	1 820 356
Vehicle Registration	2 718 513	1 799 482
	2 791 006	3 619 838
Due to COVID 19 Lockdown level restrictions, Revenue for Drivers Licence decreases for the year ended 30 June 2021, as testing was not permitted.		
22. Licences and permits (exchange)		
Business Trading Licences	46 346	26 565

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
23. Other income		
Library Membership Fees	8 153	12 170
Commission Income	-	133 877
Other Income - Skills, Site Rentals, Windeeds, Copies	62 178	365 139
Cemetery - Burial Fees	418 136	269 576
Rental of Advertisements Sites	42 694	59 905
Rates Clearance Certificate Fees	63 024	54 713
Building Plan Fees	208 826	25 009
Tender Document Fees	4 190	48 007
Staff Recoveries	3 918 717	-
	4 725 918	968 396

24. Investment revenue

Interest revenue

Bank	897 107	1 867 041
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25. Property rates

Rates received

Property rates	98 951 181	93 287 784
	98 951 181	93 287 784
Property rates - penalties imposed	4 995 664	4 942 566
	103 946 845	98 230 350

Valuations

Residential	4 136 514 000	4 131 699 000
Commercial	1 502 314 000	1 500 450 000
Place of worship	99 610 000	99 167 000
Municipal	279 677 000	265 589 000
Agriculture	3 529 330 000	3 548 017 000
Vacant Land	148 888 500	149 110 500
Public Service Infrastructure	74 864 300	74 602 300
Privately Owned Cemetery	300 000	300 000
Public benefit organization	55 144 000	55 144 000
Public Service Purpose	1 063 122 000	1 063 122 000
	10 889 763 800	10 887 200 800

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 28 February 2019. Interim valuations are processed on a monthly basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an monthly basis with the final date for payment being the 9th of every month. Interest at prime plus 1% per annum is levied on rates outstanding rates.

26. Municipal Traffic Fines

Municipal Traffic Fines from Section 56 & 341 Violations	8 502 396	6 033 796
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AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
27. Government grants and subsidies		
Operating grants		
Equitable share	191 340 000	148 281 000
Integrated National Electrification Programme	7 303 692	815 723
Expanded Public Works Programme	1 831 000	1 994 866
Financial Management Grant	2 600 000	2 235 000
Provincial Housing Grant	117 990	460 900
Provincial Housing Deed Restoration	3 034 635	347 880
Provincial Library Grant	5 372 159	4 319 010
Cyber Cadet Grant	-	357 854
COGTA Thusong Centre Grant	49 962	76 958
Disaster Management Grant - COVID 19	-	1 302 000
	211 649 438	160 191 191

Capital grants		
Municipal Infrastructure Grant	37 713 429	42 259 850
	249 362 867	202 451 041

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	58 022 867	54 170 041
Unconditional grants received	191 340 000	148 281 000
	249 362 867	202 451 041

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. This grant is unconditional and supplements the municipal revenue stream of Property Rates & Service Charges.

Equitable Share

Current-year receipts	191 340 000	148 281 000
Conditions met - transferred to revenue	(191 340 000)	(148 281 000)
	-	-

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

Gijima Grant

Balance unspent at beginning of year	38 830	38 830
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Conditions still to be met - remain liabilities (see note 13).

Land Use Management Grant

Balance unspent at beginning of year	229 850	229 850
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Conditions still to be met - remain liabilities (see note 13).

National Integrated Electrification Grant

AbaQulusi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
27. Government grants and subsidies (continued)		
Balance unspent at beginning of year	-	7 537 447
Current-year receipts	10 000 000	19 000 000
Conditions met - transferred to revenue	(7 303 692)	(815 722)
Transfer to Equitable Share - roll over not approved	-	(7 788 000)
Expenditure recorded directly against liability (Principle & Agent Agreement)	(2 696 308)	(17 933 725)
	-	-

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

MSIG - Upgrading Emondlo Billing

Balance unspent at beginning of year	3 166	3 166
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Conditions still to be met - remain liabilities (see note 13).

Provision Housing Grant

Balance unspent at beginning of year	285 383	285 383
Conditions met - transferred to revenue	(117 990)	-
	167 393	285 383

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

COGTA - Emergency Water Massification Grant

Balance unspent at beginning of year	2 569	2 569
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Conditions still to be met - remain liabilities (see note 13).

Provincial Library Grant

Balance unspent at beginning of year	2 871 206	2 906 216
Current-year receipts	4 660 000	4 284 000
Conditions met - transferred to revenue	(5 372 159)	(4 319 010)
	2 159 047	2 871 206

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	1 262 429	6 390 365
Current-year receipts	36 451 000	37 135 000
Conditions met - transferred to revenue	(37 713 429)	(42 262 936)
	-	1 262 429

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

Provincial Housing Deeds Restoration Grant

Balance unspent at beginning of year	3 531 771	-
Current-year receipts	3 165 292	3 879 651
Conditions met - transferred to revenue	(3 034 635)	(347 880)
	3 662 428	3 531 771

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

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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27. Government grants and subsidies (continued)

COGTA Thusong Centre Grant

Balance unspent at beginning of year	49 962	126 920
Conditions met - transferred to revenue	(49 962)	(76 958)
	-	49 962

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

Financial Management Grant

Current-year receipts	2 600 000	2 235 000
Conditions met - transferred to revenue	(2 600 000)	(2 235 000)
	-	-

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

AbaQulusi Local Municipality

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Figures in Rand	2021	2020
28. Employee related costs		
Basic	108 720 544	98 694 261
Bonus	7 097 534	6 704 826
Medical aid - company contributions	7 543 983	5 583 941
UIF	639 377	236 989
SDL	1 060 676	1 202 618
Leave Accrual	3 250 612	358 539
Defined contribution plans	10 241 789	10 781 000
Overtime payments	10 719 649	10 566 005
Car allowance	9 240 552	8 104 881
Housing benefits and allowances	1 090 123	1 062 017
Cellphone Allowance	1 313 724	1 337 649
Pension Fund Contributions	17 344 977	16 107 716
Other Allowance including Bargain Council, Tool Allowance, Travel & Incidental	1 042 900	384 976
	179 306 440	161 125 418

Remuneration of municipal manager

Annual Remuneration	1 154 100	1 259 210
Car Allowance	384 700	91 472
Performance Bonuses	105 045	-
Travel & Subsistence	31 718	12 110
Cellphone Allowance	36 000	36 000
BackPay	-	188 118
	1 711 563	1 586 910

Mr. B E Ntanzi was entitled to a performance bonus for the 2018/2019 performance results. The performance bonus which was calculated at 8% of the Director's package was paid during the 2020/2021 Financial period.

Remuneration of chief finance officer

Annual Remuneration	1 147 084	961 836
Performance Bonuses	74 604	-
Travel & Subsistence	-	66 270
BackPay	-	146 439
Cellphone Allowance	33 825	30 000
Acting Allowance	-	14 002
	1 255 513	1 218 547

The CFO Mr. H Mahomed was placed on suspension from 1 July 2020, with full pay. Mr. H Mahomed passed away in January 2021. Mr. H Mahomed was entitled to a performance bonus for the 2018/2019 results. The performance bonus which was calculated at 8% of the Director's package was paid during the 2020/2021 Financial period. During his time of suspension Ms ST Mhlongo was seconded by COGTA, from 1 December 2020 and she was remunerated by the Municipality

Remuneration of Director Technical Services

Annual Remuneration	600 866	699 411
Car Allowance	58 284	-
BackPay	-	14 036
Cellphone Allowance	21 205	20 000
Travel & Subsistence	2 762	3 903
	683 117	737 350

Mr TR Malunga was previously seconded by COGTA from 26 September 2019 to 30 June 2020 and he was remunerated by the Municipality. Mr N W Mbongwa who was the Manager - Water Services was appointed as the Director Technical Services with effect 19 October 2020. Mr. N W Mbongwa was not entitled to a performance bonus for the 2018/2019 results.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
28. Employee related costs (continued)		
Remuneration of Director Corporate Services		
Annual Remuneration	831 206	855 658
Car Allowance	277 069	186 178
Performance Bonuses	74 604	-
BackPay	-	146 439
Cellphone Allowance	30 000	30 000
Travel & Subsistence	-	23 425
Other	-	168 010
	1 212 879	1 409 710

Ms S P Dlamini was entitled to a performance bonus for the 2018/2019 results. The performance bonus which was calculated at 8% of the Director's package was paid during the 2020/2021 Financial period.

Remuneration Director Community Services

Annual Remuneration	523 154	699 411
Car Allowance	135 997	-
Cellphone Allowance	21 205	20 000
Travel & Subsistence	6 975	17 918
BackPay	-	14 036
	687 331	751 365

Mr. S W Zondo was previously seconded by the COGTA from 1 October 2019 to 30 June 2020 and he was remunerated by the Municipality. Mr. T Xaba was appointed with affected 19 October 2020. Mr. Zondo and Mr. Xaba was not entitled to a performance bonus for the 2018/2019 results.

Remuneration of Director Planning and Development

Annual Remuneration	831 206	721 377
Car Allowance	277 069	240 459
Performance Bonuses	74 604	-
Cellphone Allowance	30 000	30 000
Travel & Subsistence	1 424	6 063
BackPay	-	146 439
Acting Allowance	-	7 001
	1 214 303	1 151 339

Mr. J S Landman was entitled to a performance bonus for the 2018/2019 results. The performance bonus which was calculated at 8% of the Director's package was paid during the 2020/2021 Financial period.

Remuneration of Acting Municipal Manager

Annual Remuneration	-	547 452
Cellphone Allowance	-	13 166
Travel & Subsistence	-	78 406
BackPay	-	127 741
	-	766 765

Mr. Z T Shongwe was seconded by COGTA during the period 1 November 2019 to 31 March 2020 when the Municipal Manager was suspended. He was remunerated by the Municipality. Mr. Z T Shongwe was not entitled to a performance bonus for the 2018/2019 results.

AbaQulusi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
29. Remuneration of councillors		
Mayor	-	43 556
Deputy Mayor	667 619	586 678
Executive Committee Members	4 527 798	3 413 836
Speaker	684 299	530 816
Councillors	12 459 968	10 461 151
	18 339 684	15 036 037

In-kind benefits

The Deputy Mayor, Speaker and Executive Committee Members are full-time. The Deputy Mayor and Speaker are provided with an office and secretarial support at the cost of the Municipality. The Executive Committee Members are provided with an office only.

The Mayor resigned on the 17 July 2019, and his duties are being fulfilled by the Deputy Mayor.

The Deputy Mayor and Speaker each has a full-time bodyguard and driver.

30. Finance costs

Interest paid	7 985 905	1 561 611
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31. Depreciation and amortisation

Property, plant and equipment	84 677 794	48 163 748
Intangible assets	92 941	301 645
	84 770 735	48 465 393

32. Debt impairment

Contributions to debt impairment provision - Traffic Fines	9 256 198	5 521 938
Contributions to debt impairment provision - Consumer Debtors	55 515 077	73 741 398
	64 771 275	79 263 336

Management reassess debt impairment for year end 30 June 2021 in accordance with GRAP 104. All Customers with debt 30 days and older was considered for impairment, as per the new methodology adopted.

33. Bulk purchases

Electricity - Eskom	191 593 530	227 699 098
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34. Contracted services

Presented previously		
Information Technology Services	5 713 428	7 161 185
Outsourced Services		
Burial Services	1 560	64 000
Meter Management	3 059 207	2 986 383
Refuse Removal	12 757 071	11 215 490
Security Services	13 700 421	13 907 921
Water Takers	14 518 773	-

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
34. Contracted services (continued)		
Consultants and Professional Services		
Business and Advisory	5 121 289	5 783 135
Infrastructure and Planning	16 806 834	8 079 349
Laboratory Services	692 265	-
Legal Cost	6 828 359	6 916 961
Contractors		
Catering Services	242 429	29 032
Electrical	724 712	311 363
Gardening Services	9 291 015	4 220 762
Maintenance of Equipment	7 787 219	6 578 812
Traffic and Street Lights	13 240	-
Transportation	-	6 266 862
	97 257 822	73 521 255
35. General expenses		
Advertising	475 249	683 434
Auditors remuneration	3 057 119	3 118 018
Bank charges	2 906 521	1 610 236
Commission paid for Prepaid Vendor Sales	29 165	1 892 285
Consumables	14 247 410	13 880 142
Delivery expenses	-	8 084
Insurance	2 932 754	1 402 358
IT expenses	531 082	-
Fuel and oil	2 986 502	2 389 102
Postage and courier	875 329	1 106 318
Protective clothing	322 298	289 732
Subscriptions and membership fees	1 847 199	3 207 699
Telephone and fax	347 024	1 157 865
Training	1 191 872	-
Travel - local	912 448	393 612
Expanded Public Work Programme (EPWP)	2 184 425	3 854 769
Financial Management Interns Compensation	458 333	227 687
Workmans Compensation	644 269	624 476
Other expenses	538 365	262 897
	36 487 364	36 108 714
36. Lease rentals on operating lease		
Equipment		
Contractual amounts	689 033	-
Plant and equipment		
Contractual amounts	5 900 292	-
	6 589 325	-
37. Auditors' remuneration		
Fees	3 057 119	3 118 018

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
38. Cash generated from operations		
Surplus (deficit)	2 364 841	(42 731 464)
Adjustments for:		
Depreciation and amortisation	84 770 735	48 465 393
Fair value adjustments	(15 928 000)	9 541 000
Impairment deficit	3 824 598	-
Debt impairment	56 824 989	17 343 369
Movements in retirement benefit assets and liabilities	10 174 045	5 521 500
Movements in provisions	6 806 747	1 525 697
Inventory write-off	57 704	314 670
Contribution to staff leave	3 250 612	358 539
Donation transfer	-	(1 720 511)
Actuarial Gains/Losses	(14 184 833)	-
Changes in working capital:		
Inventories	(1 009 021)	4 664 959
Receivables from exchange transactions	4 976 256	(7 509 582)
Movement in retirement benefits assets & liabilities	-	(4 794 675)
Receivables from non-exchange transactions	(60 496 823)	(17 736 179)
Payables from exchange transactions	(54 057 692)	(12 733 032)
VAT	32 383 766	(16 197 528)
Unspent conditional grants and receipts	(2 011 882)	(9 944 386)
Consumer deposits	549 699	(153 972)
Other liability 1	(3 026 211)	-
	55 269 530	31 906 614

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	8 653 050	33 252 215
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Total capital commitments

Already contracted for but not provided for	8 653 050	33 252 215
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Authorised operational expenditure

Total commitments

Total commitments

Authorised capital expenditure	8 653 050	33 252 215
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This committed expenditure relates to plant and equipment will be financed by Government Grants and subsidies and contracted services will be financed from Equitable Share, Property Rates and Service Charges. All commitments are disclosed inclusive VAT

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	439 060	-
- in second to fifth year inclusive	454 631	-
	893 691	-

Operating lease payments represent rentals payable by the municipality for certain of its office equipment (Printers and Photocopiers). Leases are negotiated for a term of three years and rentals are fixed for a three years. The municipality entered into a new agreement from 1 December 2020. The previous lease agreement ended on the 31 May 2020. Therefore no minimum lease payments was disclosed for the comparative year 2020..

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
40. Contingencies		
Contingencies Listings		
Kuntwele Enzazi Ventures (Pty) Ltd - Claim for unpaid Services rendered to the Municipality	539 411	539 411
SALA Pension Fund - Matter settled in the Financial year	-	16 113 397
Masefane Trading (Pty) Ltd - Matter settled in the Financial year	-	2 700 000
ZP & N Mthembu - Claim for damages on behalf of a child who was allegedly electrocuted and sustained injuries	3 000 000	3 000 000
D Bakker - Claim for pothole damages to motor vehicle	17 990	17 990
IE Brand - Claim for personal injury sustained due damage sidewalk which should be maintained by the municipality	615 090	615 090
Quantum Leap (Pty) Ltd - Claim for unpaid services relating to refuse removal services	13 043 700	13 043 700
Autumn Storm Investment (Pty) Ltd - Claim for compensation for alleged land expropriation by a community in the jurisdiction of the Municipality.	17 000 000	17 000 000
E Maphari - Suing for damages relating to unlawful arrest by Municipal Lawenforcement	270 000	100 000
NEXOR 312 (Pty) Ltd - Urgent application against municipality for publish of tender	148 542	-
C E Sbasiido - damages in respect seizure of goods by Municipal Law Enforcement	30 000	-
Izingodla Engineering (Pty) Ltd - Unpaid Invoices for Vrede Cliffdale Project	5 636 573	-
	40 301 306	53 129 588

Contingent assets

Employee Mrs. GSD Khumalo made a fraudulent payment of R 3,918,716.89 to her personal bank account. Subsequently the employee was dismissed and criminal proceedings was instituted. A recovery of R 3,336,376.14 from the employee's seized bank accounts was made by the Municipality's Attorneys Shaheed Abdulla & Co, these monies was paid to the Municipality on the 15 October 2020.

The Municipal Attorneys Garlicke Bouwsfield is proceeding with recovery of R 582 340.75, which is the balance. At the time of reporting the legal action is proceeding, and the prospect of recovery is reasonable.

AbaQulusi Local Municipality

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Figures in Rand	2021	2020
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41. Related parties

Relationships
COGTA

The MEC for CoGTA implemented Section 139(1)(b) of the Constitution with effect 21 February 2019. A ministerial representative was appointed to oversee the municipality's financing and operating policy decisions. The municipality was still under the Section 139(1)(b) intervention as at reporting date of 30 June 2021.

Remuneration of management

Management class: Councillors

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

41. Related parties (continued)

2021

Name	Councillor upper Limits	Total
Mayoral committee members	4 527 798	4 527 798
Councillors	13 811 886	13 811 886
	18 339 684	18 339 684

2020

Name	Councillor upper limits	Total
Mayoral committee members	3 416 836	3 416 836
Councillors	11 619 201	11 619 201
	15 036 037	15 036 037

*Refer to note 29 "Remuneration of councillors"

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

Management class: Executive management

2021

Name	Basic salary	Bonuses and performance related payments	Other benefits received	Total
Mr. B E Ntanzu (Municipal Manager)	1 154 100	105 045	452 418	1 711 563
Mr. H Mahomed (CFO Deceased 1 January 2021)	603 097	74 604	16 325	694 026
Ms ST Mhlongo (Acting CFO 1 December 2020)	543 986	-	17 500	561 486

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41. Related parties (continued)

Mr. N W Mbongwa (Director Technical Services)	600 866	-	82 251	683 117
Ms S P Dlamini (Director Corporate Services)	831 206	74 604	307 069	1 212 879
Mr. T Xaba (Director Community Services)	523 154	-	164 176	687 330
Mr. J S Landman (Director Development Planning)	831 206	74 604	308 493	1 214 303
	5 087 615	328 857	1 348 232	6 764 704

2020

Name	Basic salary	Other benefits received	Total
Mr. B E Ntanzu (Municipal Manager)	1 259 210	327 700	1 586 910
Mr. H Mahomed (CFO)	961 836	256 711	1 218 547
Mr TR Malunga (Acting Director Technical Services)	699 411	37 393	736 804
Ms S P Dlamini (Director Corporate Services)	855 658	554 052	1 409 710
Mr. S W Zondo (Acting Director Community Services)	699 411	51 954	751 365
Mr. J S Landman (Director Development Planning)	721 377	429 962	1 151 339
Mr. Z T Shongwe (Acting Municipal Manager 1 November 2019 to 31 March 2020)	547 452	219 313	766 765
	5 744 355	1 877 085	7 621 440

*Refer to note 28 "Employee related costs"

42. Prior period errors

Accumulated Surplus

	2020
Balance Previously Reported (Audited)	-1 425 624 663.93
Reallocation of Motor Vehicle & Overtime from Basic Salaries	-14 747 029.31
Reallocation of Motor Vehicle Allowance from Basic Salaries	5 806 227.19
Reallocation of Overtime from Basic Salaries	8 940 802.12
Credit Notes processed to correct Creditors Listings	-2 724 379.08
Reclassified Legal Expenses from General Expenditure to Contracted Services Consultants & Professionals	-3 653 622.00
Reclassified Legal Expenses to Contracted Services Consultants & Professionals from General Expenditure	3 653 622.00

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42. Prior period errors (continued)		
Reclassified from Contracted Services - Maintenance of Assets to Contracted Services - Consultants & professionals (Infrastructure & Planning) Contractors (Gardening Services)		- 12 151 287.00
Reclassified to Contracted Services - Consultants & professionals (Infrastructure & Planning) from Contracted Services - Maintenance of Assets		7 930 524.00
Reclassified to Contracted Services - Contractors (Gardening Services) from Contracted Services - Maintenance of Assets		4 220 762.00
Reclassified from Repairs & Maintenance to Contracted Services - Contractors - Maintenance of Equipment		- 6 578 812.00
Reclassified to Contracted Services - Contractors - Maintenance of Equipment from Repairs & Maintenance		6 578 812.00
Performance Bonus -Senior Managers not Accrued 2019/2020		839 536.76
INEP Expenditure incorrectly recognised - Principle & Agent Agreement - 2019/2020		-17 933 724.59
INEP Revenue incorrectly recognised - Principle & Agent Agreement 2019/2020		17 933 724.59
NEP Expenditure incorrectly recognised - Principle & Agent Agreement 2018/2019		- 8 893 691.81
NEP Revenue incorrectly recognised - Principle & Agent Agreement 2018/2019		8 893 691.81
Correction of costs - Infrastructure Assets - Prepaid Meters		125 311 712.00
Correction of Accumulated Depreciation - Infrastructure - Prepaid Meters		-16 631 118.00
Correction of opening Balance Community Costs		-48 440.33
Correction of opening Balance Community Accumulated Depreciation Costs		-1 105.74
Correction of opening Balance Electricity Costs		2 309 063.12
Correction of opening Balance Roads Costs		-1 655 985.26
Correction of opening Balance Water Costs		14.19
Correction of opening Balance Electricity Accumulated Depreciation		-1 026 335.58
Valuation of Land with zero values in FAR		-3 260 000.00
Correction of Eskom Debt Bulk purchases recorded as Current year expenditure 2019/2020		-24 930 928.00
Correction of Eskom Debt Bulk purchases recorded as Current year expenditure 2018/2019		36 914 617.00
Expenditure not raised for contractor Izingola 2016		3 263 339.36
Recognition of Output VAT portion on Provision Account as 1 July 2019		-9 598 960.54
Recognition of Output VAT portion on Provision Account as 1 July 2020		-1 810 660.31
Impairment not raised for Land Sales Debtors 2019/2020		5 502 318.00
Impairment not raised for Property Rates Debtors 2019/2020		60 130 790.98
Interest not raised on Service Charges 2019/2020		-7 696 477.95
Impairment not raised on Interest for Service Charges 2019/2020		7 696 477.95
Balance Restated as at 01 July 2020		- 1 253 041 183.00
Payables from exchange transactions		2020
Balance previously reported		-130 396 984.00
Credit Notes processed to correct Creditors Listings		2 724 379.08
Reclassified Hall Deposits to Consumer Deposits		333 786.00
Reclassified Advance Payments from Trade Payables and disclosed it as a separate line item within Note for Payables from Exchange Transactions		2 644 611.59
Reclassified Advance Payments from Trade Payables and disclosed it as a separate line item within Note for Payables from Exchange Transactions		-2 644 611.59
Retentions not raised on Projects 2019/2020		-211 235.00
Correction of Eskom Debt Bulk purchases not raised as creditor 2019/2020		28 670 567.00

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42. Prior period errors (continued)		
Correction of Eskom Debt Bulk purchases not raised as creditor 2018/2019		- 42 451 810.00
Creditor not raised for contractor Izingola 2016		-3 752 840.26
Balance Restated as at 01 July 2020		-145 084 136.00
-		-
-		-
Consumer Deposits		2020
Balance previously reported		-15 308 925.00
Reclassified Hall Deposits to Consumer Deposits		-333 786.00
Balance Restated as at 01 July 2020		-15 642 711.00
-		-
-		-
Provisions		2020
Balance previously reported		-31 970 299.00
Performance Bonus -Senior Managers not Accrued 2019/2020		-839 537.00
Balance Restated as at 01 July 2020		-32 809 836.00
-		-
-		-
VAT Receivable		2020
Balance previously reported		22 523 756.00
VAT not raised on retentions 2019/2020		-31 685.00
Correction of VAT on Eskom Debt Bulk purchases not raised 2019/2020		-3 739 639.00
VAT not raised on expenditure for contractor Izingola 2016		489 500.90
Correction of VAT on Eskom Debt Bulk purchases not raised 2018/2019		5 537 193.00
Recognition of Output VAT portion on Provision Account as 1 July 2019		9 598 960.54
Recognition of Output VAT portion on Provision Account as 1 July 2020		1 810 660.31
Balance Restated as at 01 July 2020		36 188 746.00
-		-
-		-
Receivables from Non-Exchange Exchange Transactions		2020
Balance previously reported		84 719 523.00
Reclassified to exchanges transactions		-570 719.00
Impairment not raised for Property Rates Debtors 201/2020		-60 130 790.00
Balance restated as at 01 July 2020		24 018 013.00
Receivables from Exchange Transactions		2020
Balance previously reported		73 690 517.00
Reclassified from non-exchanges transactions		570 719.00
Impairment not raised for Land Sales Debtors 2019/2020		-5 502 318.00
Interest not raised on Service Charges 2019/2020		7 696 477.95
Impairment not raised on Interest for Service Charges 2019/2020		- 7 696 477.95
Balance restated as at 01 July 2020		68 758 917.00
-		-
-		-
Property Plant & Equipment - Costs		2020
Balance previously reported		3 348 139 216.00
Retention not capitalised		242 920.00
Correction of costs - Infrastructure Assets - Prepaid Meters		-125 311 712.00
Correction of opening Balance Community Costs		48 440.33
Correction of opening Balance Electricity Costs		-2 309 063.12
Correction of opening Balance Roads Costs		1 655 985.26
Correction of opening Balance Water Costs		14.19
Valuation of Land with zero values in FAR		3 260 000.00
Land Reclassified between categories of PPE - Land		55 107 212.83
Land Reclassified between categories of PPE - Buildings		- 1 860 315.95

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42. Prior period errors (continued)		
Land Reclassified between categories of PPE - Sanitation		- 657 228.01
Land Reclassified between categories of PPE - Water		- 26 642 650.54
Land Reclassified between categories of PPE - Community		- 25 947 018.33
Balance Restated as at 01 July 2020		3 225 725 800.66
	-	-
	-	-
Property Plant & Equipment - Accumulated Depreciation		2020
Balance previously reported	-1 943 313 321.00	
Correction of opening Balance Community Accumulated Depreciation Costs		1 105.74
Correction of opening Balance Electricity Accumulated Depreciation		1 026 335.58
Correction of Accumulated Depreciation - Infrastructure - Prepaid Meters		16 631 118.00
Balance Restated as at 01 July 2020		-1 925 654 761.68

43. Comparative figures

Certain comparative figures have been reclassified.

44. Risk management

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The liquidity ratio is outlined below.

The municipality has no significant interest-bearing assets, and the income and operating cash flows are substantially independent of changes in market interest rates. As at 30 June 2021 financial instruments exposed to interest rate risk were call and notice deposits.

Financial Instruments

Current Assets	130 839 360	216 536 478
Current Liabilities	(123 466 457)	(176 019 602)
Liquidity Ratio	1.05	1.23

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis in terms of council policy. Sales to consumers are settled in cash. The municipality's exposure to credit risk is indicated below.

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

Financial instrument	2021	2020
Cash & Cash Equivalents	23 724 637	16 554 087
Receivables from non-exchange transactions	27 689 841	84 148 804
Receivables from exchange transactions	63 782 661	68 758 917

45. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 1 255 406 028 and that the municipality's total assets exceed the total liabilities.

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45. Going concern (continued)

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.

The Municipality used the following ratio to determine the going concern assessment. The Ratios can be interpreted as follows

The Asset Test Ratio is used to determine the to which the municipality is able to settle current obligations. A ratio of 1:1 is used as norm, therefore any ratio above 1, is favourable.

The Current Asset Ratio is used to determine the extent current and short-term assets can be disposed to liquidate current or short-term liabilities. A ratio of 1:1 is used as norm, therefore any ratio above 1, is favourable.

Ratio is used to determine how much the municipality relies on debt to finance assets.

The Debt

Asset Test Ratio	Current Assets	Current Liabilities	Ratio
2018/2019	151 979 735	169 827 569	0.89
2019/2020	216 536 478	176 019 602	1.23
2020/2021	130 839 360	120 116 748	1.09

Current Asset Ratio	Current Assets	Current Liabilities	Ratio
2018/2019	167 530 618	169 827 569	0.98
2019/2020	216 536 478	176 019 602	1.23
2020/2021	130 839 360	120 116 748	1.09

Debt Ratio	Total Liabilities	Total Assets	Ratio
2018/2019	251 448 1291	653 850 119	15%
2019/2020	266 204 4381	575 503 823	17%
2020/2021	209 832 3311	465 238 359	14%

46. Unauthorised expenditure

Opening balance as previously reported	267 800 878	304 455 712
Opening balance as restated	267 800 878	304 455 712
Add: Expenditure identified - current	129 439 476	64 775 559
Less: Amount written off	(62 775 559)	(101 430 393)
Closing balance	334 464 795	267 800 878

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

Non-cash	98 111 713	25 498 539
Cash	31 327 763	39 277 020
	129 439 476	64 775 559

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46. Unauthorised expenditure (continued)		
Analysed as follows: non-cash		
Employee related cost - Leave Pay Provision	3 250 612	-
Depreciation and amortisation	39 016 735	-
Finance charges - Service & Interest Cost Post Employee Benefits	10 241 789	10 781 000
Loss on disposal of property, plant and equipment	-	4 940 500
Provision of impairment	41 720 275	9 462 369
Inventory write down	57 704	314 670
Impairment Loss - Assets	3 824 598	-
	98 111 713	25 498 539
Analysed as follows: cash		
Bulk purchases	-	37 715 409
Contracted services	16 825 822	-
Employee related costs	6 516 036	-
Finance Costs - Interest Paid	7 985 905	1 561 611
	31 327 763	39 277 020
47. Fruitless and wasteful expenditure		
Opening balance as previously reported	1 240 197	20 838 948
Opening balance as restated	1 240 197	20 838 948
Add: Expenditure identified - current	8 061 007	1 240 197
Less: Amount written off - current	(665 599)	(20 838 948)
Less: Amount written off - prior period	(1 240 197)	-
Closing balance	7 395 408	1 240 197

A comprehensive register is maintained by the Municipality in accordance with the Municipal Finance Management Act

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Figures in Rand	2021	2020
47. Fruitless and wasteful expenditure (continued)		
Expenditure identified in the current year include those listed below:		
MUNSOFT (Pty) Ltd (Interest Late payment)	-	75 102
Eskom (Interest for Late payment)	650 308	737 864
SARS (VAT Penalty incurred for late submission)	-	334 117
Office of Auditor General (Interest Late payment)	9 404	70 216
Telkom (Interest for Late payment)	9 555	22 898
SARS (PAYE Assessment Penalty)	23 286	-
Izingodla Engineers (Pty) Ltd (Interest Paid on Legal Settlement)	2 465 983	-
Magagula (Interest Paid on Legal Settlement)	1 002 471	-
Msuftu Transport (Interest Paid Legal Settlement)	3 900 000	-
	8 061 007	1 240 197

The municipality maintains a comprehensive register for Fruitless and Wasteful Expenditure as required by the Municipal Finance Management Act.

48. Irregular expenditure

Opening balance as previously reported	192 373 991	184 567 658
Opening balance as restated	192 373 991	184 567 658
Add: Irregular Expenditure - current	78 194 923	22 513 343
Add: Irregular Expenditure - prior period	2 474 976	-
Less: Amount written off - current	(16 550 037)	(14 707 010)
Less: Amount written off - prior period	(5 285 606)	-
Closing balance	251 208 247	192 373 991

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48. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Competitive bidding not invited (20 incidents)	Pending investigations by Management	43 152 890	22 513 343
Three written quotations not invited (3 incidents)	Pending investigations by Management	455 588	-
Declaration of interest not submitted (1 incident)	Pending investigations by Management	11 850	-
Tax clearances not obtained (5 Incidents)	Pending investigations by Management	17 435 184	-
Specifications didn't meet minimum threshold for local content (13 incidents)	Pending investigations by Management	17 277 703	-
		78 333 215	22 513 343

49. Additional disclosure in terms of Municipal Finance Management Act

SDL

Current year fee	1 256 971	1 168 682
Amount paid - current year	(1 256 971)	(1 168 682)
	-	-

Audit fees

Current year fee	3 057 119	3 118 018
Amount paid - current year	(3 057 119)	(3 118 018)
	-	-

PAYE and UIF

Current year subscription / fee	27 673 237	26 173 715
Amount paid - current year	(27 673 237)	(26 173 715)
	-	-

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension and Medical Aid Deductions		
Current year subscription	25 714 025	21 691 657
Amount paid - current year	(25 714 025)	(21 691 657)
	-	-

Councillors' arrear consumer accounts

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

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TZ Mavundla	5 533	9 808	15 341
MA Hlatshwayo	7 273	71 270	78 543
NS Mgidi	402	4 369	4 771
	13 208	85 447	98 655

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
JJ Jones	2 246	-	2 246
TZ Mavundla	3 179	480	3 659
DJ Mahlase	641	-	641
R Ally	3 606	23 263	26 869
MA Hlatshwayo	-	66 868	66 868
MB Mabaso	1 831	-	1 831
MP Williams	806	-	806
MS Ngidi	3 841	165	4 006
	16 150	90 776	106 926

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Accounting Officer. The expenses incurred as listed hereunder have been condoned. Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

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

The current deviations related to various expenditure due to emergencies COVID 19 and other service delivery emergencies, making it impossible to follow the procurement process. A detailed register of all deviations is maintained by the Municipality.

Supply Chain Management Deviations more than R 200 000

Covid 19 Emergencies	803 250	554 500
Engineering Services	-	310 420
	803 250	864 920

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

Supply Chain Management Deviations below R 200 000

Covid 19 Emergencies 225 250 2 504 570

Distribution Losses

Electricity Losses	2021	2020
Units Purchased	143 282 267	145 020 912
Units Sold	(120 943 130)	(120 292 677)
Total Loss	22 339 137	24 728 235
Percentage Loss:		
Distribution Losses	16 %	17 %
Total units lost in distribution	22 339 137	24 728 235
Cost for providing the service	222 928 007	244 054 023
Cost per unit	1.56	1.68
Total cost lost through distribution & theft	34 756 704	41 614 863

The technical losses tolerable range prescribed by NERSA is between 5 - 12%. The Distribution Losses were as a result of aging infrastructure, illegal connections, and meter tampering

Water Losses	2021	2020
Units Purified	104 915 050	8 504 365
Units Sold	(33 015 601)	(2 252 956)
Total Loss	71 899 449	6 251 409
Percentage Loss:		
Distribution Losses	69 %	74 %
Total units lost in distribution	71 899 449	6 251 409
Cost for providing the service	44 063 314	22 413 722
Cost per unit	0.42	2.64
Total cost lost through distribution & theft	30 197 078	16 475 933

The technical losses tolerable range is between 5 - 15%. The Distribution Losses were as a result of aging infrastructure, illegal connections, and unmetered water supply.

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50. Segment information

Identification of segments

The municipality is organised and reports to management on the basis of five major functional areas: Electricity, Water, Sanitation, Refuse and Roads. 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 aggregated for reporting purposes.

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

The municipality operates within its Municipal jurisdiction, as per the boundaries and demarcation. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout were sufficiently similar to warrant aggregation.

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
Water	Infrastructure is interrelated and similar in delivery to the consumer
Electricity	Infrastructure is interrelated and similar in delivery to the consumer
Refuse - Waste Management	Infrastructure is interrelated and similar in delivery to the consumer
Sanitation - Waste Water Management	Infrastructure is interrelated and similar in delivery to the consumer
Roads	Road network access

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50. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Water	Electricity	Refuse - Waste Management	Sanitation - Waste Water Management	Roads	Total
Revenue						
Revenue from non-exchange transactions which includes Transfers & Subsidies	1 770	7 415 847	819	2 308	-	7 420 744
Revenue from exchange transactions	44 344 251	193 304 054	17 865 848	31 367 451	3 600	286 885 204
Total segment revenue	44 346 021	200 719 901	17 866 667	31 369 759	3 600	294 305 948
unallocated revenue						391 091 621
Entity's revenue						685 397 569
Expenditure						
Salaries and wages	14 479 577	21 592 699	-	17 318 690	13 950 906	67 341 872
Contracted Services	27 301 297	3 906 939	12 757 071	2 173 913	2 603 251	48 742 471
General Expenses	950	3 228 459	1 666	19	384 993	3 616 087
Bulk purchases	-	191 593 530	-	-	-	191 593 530
Depreciation	13 701 874	27 005 863	1 442 312	6 294 380	27 226 597	75 671 026
Inventory consumed	2 281 490	5 693 969	244 295	978 004	1 833 447	11 031 205
Gains & Losses	109 511	756 854	-	-	421 192	1 287 557
Total segment expenditure	57 874 699	253 778 313	14 445 344	26 765 006	46 420 386	399 283 748
Total segmental surplus/(deficit)						(104 977 800)
Unallocated expenses						(343 362 265)
Total revenue reconciling items						391 091 621
Entity's surplus (deficit) for the period						(57 248 444)
Assets						
Segment assets	267 378 239	500 042 946	46 796 536	200 858 993	177 581 378	1 192 658 092
Unallocated assets						272 580 267

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	Water	Electricity	Refuse - Waste Management	Sanitation - Waste Water Management	Roads	Total
50. Segment information (continued)						
Total assets as per Statement of financial Position						1 465 238 359
Liabilities						
Segment liabilities	(21 617 256)	(112 852 285)	(52 918 761)	(17 068 547)	(1 446 336)	(205 903 185)
Unallocated liabilities						(7 278 855)
Total liabilities as per Statement of financial Position						(213 182 040)

Information about geographical areas

The municipality has not structured, revenue and expenditure per geographical areas, and therefore the reporting per geographical area will be inaccurate if reported. The municipality is in the process of reporting for the 2021/2022 financial period per geographical area.

51. Budget differences

Material differences between budget and actual amounts

50.1 Actual exceed budget for Service Charges due to the annual tariff increases, together with additional water meters installed and damaged electricity meters replaced

50.2 Revenue from Rental of facilities increase slightly, as this was due to adjusted lockdown restriction levels

50.3 The lockdown restriction levels because of the COVID-19 pandemic impacted on the ability of the municipality to grant access to municipal offices for payment of Motor Vehicle Licences. There were instances where the office was closed due to positive cases, therefore impacting on the anticipated revenue to be collected.

50.4 Other revenue increase slightly, as this was due to adjusted lockdown restriction levels.

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51. Budget differences (continued)

50.5 Interest on investments decreased due to no additional funds being available to invest..

50.6 Property Rates revenue increased due to tariff increases and more stringent collection processes implemented by the Municipality

50.7 Fines & Penalties revenue decrease due to the lockdown restriction levels because of the COVID-19 pandemic, which impacted on the municipal traffic department issuing of fines. There were instances when the municipality had to close due to cases within the municipality

50.8 Government Grants and Subsidies increased due to additional grant funding received to assist the municipality with the impact that COVID 19 on the municipal revenue collection.

50.9 Fair Valuations Adjustments as a Revenue Item was incurred due to the valuation of Investment Property, which resulted in an increase. This revenue is a non-cash item and didnt contribute to municipality cash resources.

50.10 Employee Costs expenditure increased, due to the interest and services costs associated with post-retirement benefits which the municipality provides to all eligible employees. This calculation is done at year-end by appointed Actuaries.

50.11 Remuneration of councillors expenditure decreased, as the municipality reported a savings due to position of Mayor being vacant during the financial year.

50.12 Depreciation expenditure was under budgeted. A proper calculation at year-end was done which contributed to the significant increase in the Depreciation expenditure. This expenditure is a non-cash item and didnt have any impact on the municipality's cash resources.

50.13 Impairment loss expenditure was incurred due to conditional assessment of Property Plant & Equipment. This expenditure is a non-cash item and didnt have any impact on the municipality's cash resources.

50.14 Finance costs related to interest incurred on overdue accounts for non-payment. The municipality does not budget for this expenditure item as all payments to suppliers must be settled within 30 days as per the requirements of MFMA. The expenditure is further disclosed as fruitless and wasteful expenditure in Note 46 to Annual Financial Statements. Further, interest was also paid for the settlement of legal claims made by Msoftu Transport, Magagula, Masefane and Izingodla.

50.15 Provision for Debt Impairment on Receivables from exchange and non-exchange was underbudgeted. A proper calculation was done in accordance with accounting standard for impairment, which resulted in the significant increase in the expenditure.

50.16 Bulk purchases expenditure decreases, due to the early settlement of the ESKOM Debt.

50.17 Contracted services expenditure increased, this was due to additional legal costs incurred, the appointment of a new service provider for cleaning of the town due to the ongoing dispute with Quantum Leap, the hiring of vehicles for water tankering and energy departments, and hiring of equipment for the landfill site. The expenditure was also disclosed as unauthorised expenditure in Note 45 to the Annual Financial Statements. This expenditure will be investigated and recommendations made to council for resolution.

50.18 General expenditure decreased due to cost containment measures that was implemented

50.19 Actuaril gains & losses was not budgeted. This item is associated with post-retirement benefits which the municipality provides to all eligible employees. This calculation is done at year-end by appointed Actuaries.

50.20 Inventory write-down was not budgeted. This item is associated with write-down of stock valuation of after the year-end stock take process is completed. This is non-cash item and has no impact on the municipality cash resources.

52. Accounting by principals and agents

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

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52. Accounting by principals and agents (continued)

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

1. The municipality is a party to a principal-agent arrangement in terms of motor vehicle registrations. The municipality is considered to be an agent in accordance with GRAP 109, with the Provincial Department of Transport being the principal in this arrangement.

2. The municipality is party to the principle-agent agreement in terms of Electrification projects. The municipality is considered to be an agent in accordance with GRAP 109, with Eskom being the principle in this arrangement.

Details of the arrangement - KZN Provincial Department of Transport

The purpose of the principal-agent relationship is to provide service the community and to enhance the municipality's revenue..

The significant conditions of the arrangement is that:

The Provincial Department shall issue the motor vehicle licence renewal form to the respective owners of the motor vehicles, indicating the amount due for the year. The municipality provide facilities for owners of motor vehicles to pay their licences. The Provincial Department provide the municipality with access to its IT systems to enable capturing of the amounts received and issuing of the motor vehicle licences on their behalf. The system automatically generates the motor vehicle licence upon capturing the payment of the fees due.

The municipality collect the fees due from motor vehicle owners and simultaneously issue the new licences on behalf of the Department. The municipality is required to pay over any revenue (cash) collected to the Department in respect of motor vehicle licences. The municipality is entitled to retain 8,55% of the cash collected for undertaking this activity on behalf of the Department

Details of the arrangement - ESKOM

The purpose of the principal-agent relationship is to provide a service to the community in the form of electrification projects whereby a portion of the Integrated National Electrification Grant is utilised to fund projects in ESKOM licenced areas.

The significant conditions of the arrangement is that:

The municipality is make payments to contractors appointed by ESKOM for the electrification of households within the ESKOM Licence areas

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 KZN Provincial Department of Transport is R2 791 006 (2020: R3 619 838).

Liabilities and corresponding rights of reimbursement recognised as assets

No liabilities were incurred on behalf of the principal during the financial year, and hence no outstanding payments were recorded at year end. No corresponding rights of reimbursement that have been recognised at year

Resources (including assets and liabilities) of the entity under the custodianship of the agent

No resources have been recognised by the agent in its financial statements. The municipality is required to return the equipment supplied by the department should the agreement is terminated.

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53. Events after the reporting date

There were no adjusting or non-adjusting events after the reporting period.