Nongoma Local Municipality
(Registration number KZN265)
Annual Financial Statements
for the year ended 30 June 2021

General Information

Legal form of entity	Low Capacity Municipality (Local Government)
Nature of business and principal activities	Service Delivery
The following is included in the scope of operation	Service Delivery: Rates, waste management and general services. Main business operations: Local government activities, planning and promotion of the integrated development plan, land, economic and environmental development. The mandate of the municipality is in terms of section 152 of the Constitution of South Africa
Mayor	Cllr MA Mncwango
Deputy Mayor	Cllr AN Xulu
Speaker	Cllr BW Zulu
EXCO Members:	Cllr BJ Ntshangase
	Cllr NG Xaba
	Cllr NM Mthembu
	Cllr AN Ndabandaba
	Cllr SA Hlongwane
	Cllr NP Mbatha
MPAC Chairperson	Cllr MN Mkhwanazi
MPAC Members:	Cllr ZN Sithole
	Cllr S Nxumalo
	Cllr JT Dlamini
	Cllr NB Nhleko
	Cllr MS Hadebe
Ordinary Councillors	Cllr RZ Buthelezi
	Cllr EM Masango
	Cllr SD Nxumalo
	Cllr E Shiba
	Cllr PS Mhleko
	Cllr AM Mncwango
	Cllr SC Ndwandwe
	Cllr BG Ntombela
	Cllr BH Sithole
	Cllr SK Hadebe
	Cllr NP Mlambo
	Cllr SM Mbatha
	Cllr LN Mdluli
	Cllr NS Magwaza
	Cllr MA Mtshali
	Cllr ZS Hlongwa
	Cllr SC Ngcobo
	Cllr TN Mthethwa
	Cllr TM Ndwandwe
	Cllr LN Buthelezi
	Cllr PM Xhakaza
	Cllr MD Ndwandwe

General Information

	Cllr KM Mtshali Cllr VB Zulu Cllr JZ Zungu Cllr TJ Nsele Cllr ME Nkosi
Grading of local authority	3
Chief Financial Officer	Mr MM Zungu
Accounting Officer	Mr MB Mnguni
Business address	Lot 103 Main Street Nongoma 3950
Postal address	P O Box 84 Nongoma 3950
Telephone	035 831 7500
Facsimile	035 831 3152
Bankers	First National Bank
Auditors	Auditor General of South Africa Registered Auditors
Attorneys	ZW Ngwenya Attorneys Shepstone & Wylie Lembede & Associates Dludlu Attorneys
Website	www.nongoma.org.za

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

COID	Compensation for Occupational Injuries and Diseases
UIF	Unemployment Insurance Fund
LED	Local Economic Development
GRAP	Generally Recognised Accounting Practice
FMG	Financial Management Grant
AGSA	Auditor General South Africa
SARS	South Africa Revenue Services
INEP	Integrated National Electrification Program
LG SETA	Local Government Sector Education and Training Authority
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SARS	South Africa Revenue Services
PAYE	Pay As You Earn

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:

Accounting Officer
Mr MB Mnguni

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	3	7,969,851	7,634,155
Receivables from non-exchange transactions	4	31,542,703	34,366,147
VAT receivables	5	6,639,668	1,595,275
Cash and cash equivalents	6	14,663,020	8,327,985
		60,815,242	**51,923,562**
Non-Current Assets			
Property, plant and equipment	7	351,945,749	330,116,940
Intangible assets	8	43,416	119,498
		351,989,165	**330,236,438**
Total Assets		**412,804,407**	**382,160,000**
Liabilities			
Current Liabilities			
Finance lease obligation	9	815,589	136,341
Operating Lease Accrual		77,602	-
Payables from exchange transactions	10	67,237,221	54,159,132
Employee benefit obligation	11	774,766	272,766
Unspent conditional grants and receipts	12	238,360	-
		69,143,538	**54,568,239**
Non-Current Liabilities			
Finance lease obligation	9	3,387,597	39,693
Employee benefit obligation	11	3,800,234	3,252,832
Provisions	13	7,445,212	7,078,543
		14,633,043	**10,371,068**
Total Liabilities		**83,776,581**	**64,939,307**
Net Assets		**329,027,826**	**317,220,693**
Accumulated surplus		329,027,826	317,220,693

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		13,168	237,294
Service charges	15	1,927,752	1,773,192
Rental of facilities and equipment	16	174,923	211,067
Interest income on long outstanding debtors		4,196,197	4,152,775
Licences and permits	17	838,861	599,819
Commissions received	18	90,492	90,212
Insurance refunds	18	63,377	21,000
Interest received - investment	19	706,290	1,348,759
Total revenue from exchange transactions		**8,011,060**	**8,434,118**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	25,750,907	24,304,299
Donations received	21	-	4,326,205
Transfer revenue			
Government grants & subsidies	22	305,708,614	333,825,601
Fines, penalties and forfeits	23	469,721	389,340
Total revenue from non-exchange transactions		**331,929,242**	**362,845,445**
Total revenue	14	**339,940,302**	**371,279,563**
Expenditure			
Employee related costs	24	(103,430,044)	(98,720,977)
Remuneration of councillors	25	(14,050,506)	(14,250,631)
Depreciation and amortisation	26	(21,001,141)	(21,227,724)
Impairment loss	27	(65,457)	(1,535,070)
Finance costs	28	(896,910)	(481,686)
Lease rentals on operating lease	29	(976,780)	(5,294,693)
Provision for bad debt expenses	30	(9,968,422)	(3,606,982)
Contracted services	31	(118,074,727)	(177,368,639)
Free basic electricity	32	(113,451)	(57,873)
General expenses	33	(58,969,951)	(44,222,862)
Total expenditure		**(327,547,389)**	**(366,767,137)**
Operating surplus		**12,392,913**	**4,512,426**
Loss on disposal of assets and liabilities	7	-	(1,037,692)
Actuarial gains/losses	11	(585,783)	415,896
		(585,783)	**(621,796)**
Surplus for the year		**11,807,130**	**3,890,630**

Prior period amounts have been restated, all adjustments are disclosed and explained in prior period adjustment **note 39**.

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	326,666,178	326,666,178
Adjustments		
Prior year adjustments -refer to note 39	(13,336,115)	(13,336,115)
Restated Balance as at 01 July 2019	**313,330,063**	**313,330,063**
Changes in net assets		
Surplus for the for the year	3,890,630	3,890,630
Surplus for the year	3,890,630	3,890,630
Restated Balance as at 01 July 2020	**317,220,696**	**317,220,696**
Changes in net assets		
Surplus for the year	11,807,130	11,807,130
Surplus for the year	11,807,130	11,807,130
Balance at 30 June 2021	**329,027,826**	**329,027,826**

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Property rates		29,258,743	24,868,288
Refuse removal		1,454,659	594,922
Grants received		232,941,791	199,456,000
Interest income		706,290	1,348,759
Refunds Received		63,377	7,996,960
Rental income received		174,923	211,067
Housing grant received		72,766,823	148,888,539
Licence and permits		838,861	612,362
Fines, penalties and other receipts		469,721	511,269
Sale of goods		13,168	327,506
		338,688,356	384,815,672
Payments			
Employee costs		(119,415,694)	(111,520,134)
Suppliers		(92,725,911)	(80,457,523)
Finance costs		(896,910)	(481,686)
Housing grants payments		(72,766,823)	(148,888,529)
INEP projects paid		(8,637,656)	(8,283,830)
		(294,442,994)	(349,631,702)
Net cash flows from operating activities	35	**44,245,362**	**35,183,970**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(41,682,096)	(33,735,179)
Cash flows from financing activities			
Finance lease Liability movement		3,771,769	(207,495)
Net increase/(decrease) in cash and cash equivalents		**6,335,035**	**1,241,296**
Cash and cash equivalents at the beginning of the year		8,327,985	7,086,689
Cash and cash equivalents at the end of the year	6	**14,663,020**	**8,327,985**

The accounting policies on pages 13 to 36 and the notes on pages 37 to 75 form an integral part of the annual financial statements.

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Percentage Variance (%) R	Reference
		-	-	-	-	-	
Statement of Financial Performance							
Revenue							
Revenue from exchange transactions							
Sale of goods	-	-	**-**	13,168	**13,168**	**100**	48
Service charges	1,848,000	-	**1,848,000**	1,927,752	**79,752**	**4**	48
Rental of facilities and equipment	294,000	-	**294,000**	174,923	**(119,077)**	**(41)**	48
Interest income from long outstanding debtors	2,872,000	-	**2,872,000**	4,196,197	**1,324,197**	**46**	48
Licences and permits	992,000	-	**992,000**	838,861	**(153,139)**	**(15)**	48
Commissions received	-	-	**-**	90,492	**90,492**	**100**	48
Insurance refunds	-	-	**-**	63,377	**63,377**	**100**	48
Interest received - investment	2,143,000	(1,000,000)	**1,143,000**	706,290	**(436,710)**	**(38)**	48
Total revenue from exchange transactions	**8,149,000**	**(1,000,000)**	**7,149,000**	**8,011,060**	**-**	**-**	
Revenue from non-exchange transactions							
Taxation revenue							
Property rates	26,785,000	-	**26,785,000**	25,750,907	**(1,034,093)**	**(4)**	48
Transfer revenue							
Government grants & subsidies	171,159,000	30,347,000	**201,506,000**	305,708,614	**104,202,614**	**52**	48
Fines, penalties and forfeits	363,000	-	**363,000**	469,721	**106,721**	**29**	48
Other	1,228,000	(500,000)	**728,000**	-	**(728,000)**	**(100)**	
Total revenue from non-exchange transactions	**199,535,000**	**29,847,000**	**229,382,000**	**331,929,242**	**(4,738,007)**	**-**	
Total revenue	**207,684,000**	**28,847,000**	**236,531,000**	**339,940,302**	**(4,738,007)**		

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Percentage Variance (%) R	Reference
		-	-	-	-	-	
Expenditure							
Employee related costs	(95,954,000)	(4,362,000)	**(100,316,000)**	(103,430,044)	**(3,114,044)**	**3**	48
Remuneration of councillors	(16,261,000)	-	**(16,261,000)**	(14,050,506)	**2,210,494**	**(14)**	48
Depreciation and amortisation	(17,448,000)	(3,552,000)	**(21,000,000)**	(21,001,141)	**(1,141)**	**1**	48
Impairment loss	-	-	**-**	(65,457)	**(65,457)**	**(100)**	48
Finance costs	(869,000)	-	**(869,000)**	(896,910)	**(27,910)**	**3**	48
Lease rentals on operating lease	-	-	**-**	(976,780)	**(976,780)**	**(100)**	48
Debt Impairment	(4,000,000)	-	**(4,000,000)**	(9,968,422)	**(5,968,422)**	**107**	48
Contracted Services	(26,408,000)	(8,379,000)	**(34,787,000)**	(118,074,727)	**(83,287,727)**	**239**	48
Transfers and Subsidies	(794,000)	(277,000)	**(1,071,000)**	(113,451)	**957,549**	**(89)**	48
General Expenses	(35,120,000)	(13,609,000)	**(48,729,000)**	(58,969,951)	**(10,240,951)**	**21**	48
Other Materials	(1,720,000)	(2,649,000)	**(4,369,000)**	-	**4,369,000**	**(100)**	48
Total expenditure	**(198,574,000)**	**(32,828,000)**	**(231,402,000)**	**(327,547,389)**	**(96,145,318)**	**-**	
Operating surplus	**9,110,000**	**(3,981,000)**	**5,129,000**	**12,392,913**	**7,263,913**		
Actuarial gains/losses	-	-	**-**	(585,783)	**(585,783)**	**100**	48
Surplus for the year	**9,110,000**	**(3,981,000)**	**5,129,000**	**11,807,130**	**6,678,130**		
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**9,110,000**	**(3,981,000)**	**5,129,000**	**11,807,130**	**6,678,130**		

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Percentage Variance (%) R	Reference
		-	-	-	-	-	
Statement of Financial Position							
Assets							
Current Assets							
Receivables from exchange transactions	67,298,000	(8,590,000)	**58,708,000**	7,967,310	**(50,740,690)**	**(93)**	
Receivables from non-exchange transactions	2,000,000	-	**2,000,000**	31,542,703	**29,542,703**	**(1,477)**	48
VAT receivables	-	-	**-**	6,639,668	**6,639,668**	**100**	48
Cash and cash equivalents	2,857,000	100,000	**2,957,000**	14,663,020	**11,706,020**	**396**	48
	72,155,000	**(8,490,000)**	**63,665,000**	**60,812,701**	**(2,853,573)**	**-**	
Non-Current Assets							
Property, plant and equipment	371,522,000	10,203,000	**381,725,000**	351,945,749	**(29,779,251)**	**(8)**	48
Intangible assets	300,000	-	**300,000**	43,416	**(256,584)**	**(86)**	48
	371,822,000	**10,203,000**	**382,025,000**	**351,989,165**	**(30,035,929)**	**-**	
Total Assets	**443,977,000**	**1,713,000**	**445,690,000**	**412,801,866**	**(32,889,502)**		
Liabilities							
Current Liabilities							
Finance lease obligation	-	-	**-**	815,589	**815,589**	**100**	48
Operating lease liability	-	-	**-**	77,602	**77,602**	**100**	
Payables from exchange transactions	18,183,000	(1,966,000)	**16,217,000**	67,237,224	**51,020,224**	**315**	48
Employee benefit obligation	-	-	**-**	774,766	**774,766**	**100**	48
Unspent conditional grants and receipts	-	-	**-**	238,360	**238,360**	**(100)**	48
Borrowings	4,493,000	(4,138,000)	**355,000**	-	**(355,000)**	**(100)**	
	22,676,000	**(6,104,000)**	**16,572,000**	**69,143,541**	**52,571,956**	**-**	

Nongoma Local Municipality
(Registration number KZN265)
Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Percentage Variance (%) R	Reference
		-	-	-	-	-	
Non-Current Liabilities							
Finance lease obligation	-	-	**-**	3,387,597	**3,387,597**	**100**	48
Employee benefit obligation	-	-	**-**	3,800,234	**3,800,234**	**100**	48
Provisions	15,688,000	(31,376,000)	**(15,688,000)**	7,445,212	**23,133,212**	**311**	48
Borrowings	1,682,000	2,454,000	**4,136,000**	-	**(4,136,000)**	**(100)**	48
	17,370,000	**(28,922,000)**	**(11,552,000)**	**14,633,043**	**26,185,454**	**-**	
Total Liabilities	**40,046,000**	**(35,026,000)**	**5,020,000**	**83,776,584**	**78,757,410**		
Net Assets	**403,931,000**	**36,739,000**	**440,670,000**	**329,025,282**	**(111,646,912)**		

Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves					
Accumulated surplus	403,931,000	36,739,000	**440,670,000**	329,027,824	**(111,642,176)**

The accounting policies on pages 13 to 36 and the notes on pages 37 to 75 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 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 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 judgements is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

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

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When there is evidence that expected future economic benefits from an assets differs from previous assessment, the asset is impaired to its recoverable amount. The recoverable amount is expected to be the higher of fair value less costs to sale and value in use. Estimates are used to calculate value in use and fair value less costs to sale.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 11.

Effective interest rate

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

Allowance for doubtful debts

An impairment loss for debtors is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

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

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

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

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

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

Accounting Policies

1.4 Investment property (continued)

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.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	25 - 30 years
Plant and machinery	Straight line	4-5 years
Furniture and fixtures	Straight line	7-10 years
Motor vehicles	Straight line	7 years
Office equipment	Straight line	5 years
IT equipment	Straight line	5 years
Leasehold assets	Straight line	2 years
Infrastructure	Straight line	10-50 years

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 7).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 7).

1.6 Site restoration on landfill site asset

The municipality has an obligation to restore landfill site asset. The cost of an item of landfill site asset includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.6 Site restoration on landfill site asset (continued)

If the related asset is measured using the cost model:

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

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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

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

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

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

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

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

Accounting Policies

1.7 Intangible assets (continued)

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

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

1.8 Financial instruments

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

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

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

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

A financial asset is:

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

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

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

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

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

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

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

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

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

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

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

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

1.8 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash Equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT Receivables	Financial asset measured at amortised cost
Consumer Debtors	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
Unspent Conditional Grant	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease Obligations	Financial liability measured at amortised cost
Operating lease liability	Financial liability measured at amortised cost
Provision liability	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

Financial liabilities

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

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

1.8 Financial instruments (continued)

Presentation

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

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

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

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

1.9 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 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.

Subsequent measurement

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

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

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

1.9 Statutory receivables (continued)

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

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

- derecognise the receivable; and
- recognise separately any rights and obligations created or retained in the transfer.

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

1.10 Leases

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

1.10 Leases (continued)

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

Finance leases - lessor

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

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

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.

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.

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

1.11 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

1.12 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 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.

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.

Accounting Policies

1.13 Employee benefits

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

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

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

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

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

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity 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 recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.13 Employee benefits (continued)

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.

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.

1.14 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

A contingent liability is:

(a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
(ii) the amount of the obligation cannot be measured with sufficient reliability.

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.

1.14 Provisions and contingencies (continued)

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.

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 37.

1.14 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 test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

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.

1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and

Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 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.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest income

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

1.17 Revenue from non-exchange transactions

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

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

1.17 Revenue from non-exchange transactions (continued)

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

Measurement

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

Fines

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

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 the 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 entity. 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.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

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

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

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

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

1.20 Accounting by principals and agents

Identification

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

1.20 Accounting by principals and agents (continued)

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).

Recognition

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

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

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

1.21 Comparative figures

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

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.

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

1.23 Fruitless and wasteful expenditure

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

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

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act and has not been condoned in terms of section 170, or
- (b) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act or
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998);
- (d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law

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

Accounting Policies

1.24 Irregular expenditure (continued)

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

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

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

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 Budget information

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

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

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

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

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

1.27 Related parties

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

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

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

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

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

1.27 Related parties (continued)

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

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

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

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

1.28 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.

Figures in Rand	2021	2020

2. New standards and interpretations

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after 1 April 2020.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 5 : Borrowing costs	1 April 2021	Unlikely there will be a material impact
GRAP 13: Leases	1 April 2021	Unlikely there will be a material impact
GRAP 16: Investment Property	1 April 2021	Unlikely there will be a material impact
GRAP 17: Property, Plant and Equipment	1 April 2021	Unlikely there will be a material impact
GRAP 20: Related Parties Disclosures	1 April 2021	Unlikely there will be a material impact

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and

2. New standards and interpretations (continued)

defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 1 April 2020.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

3. Receivables from exchange transactions

	2021	2020
Prepayments	190,142	98,362
Refuse removal	13,558,857	13,275,420
Grazing and services levies	243,843	243,843
Rental	34,275	34,275
Billboards	210,145	210,631
Provision for bad debts - refuse removal	(5,994,152)	(5,955,194)
Provision for bad debts -grazing and service levies	(141,391)	(141,366)
Provision for bad debts -rental	(14,597)	(14,545)
Provision for bad debts - Billboards	(117,271)	(117,271)
	7,969,851	**7,634,155**

Refuse Removal	2021	2020
Current (0 -30 days)	304,595	187,744
31 - 60 days	109,282	132,270
61 - 90 days	108,953	137,749
91 - 120 days	104,276	140,393
121-365 days	12,931,751	12,677,264
	13,558,857	**13,275,420**

Bill boards	2021	2020
Current (0 -30 days)	1,761	1,330
31 - 60 days	-	9,707
121 - 365 days	208,384	199,594
	210,145	**210,631**

Housing rental	2021	2020
Current (0 -30 days)	25,644	8,801
31 - 60 days	1,641	7,461
61 - 90 days	1,641	5,461
91 - 120 days	1,497	1,461
121 - 365 days	3,852	11,091
	34,275	**34,275**

Grazing and Service Levies	2021	2020
121 - 365 days	243,843	243,843

Trade and other receivables pledged as security

None of the receivables from exchange transaction has been pledged as security in prior and current year.

Notes to the Annual Financial Statements

3. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

None of the financial assets that are fully performing have been renegotiated in the last year.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2021, R 421,380 (2020: R 393,159) were past due but not impaired.

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

	2021	2020
1 month past due	170,986	247,364
2 months past due	250,394	145,795

Reconciliation of provision for impairment of trade and other receivables

	2021	2020
Opening balance	6,228,375	5,662,890
Provision for bad debts	39,522	565,485
	6,267,897	**6,228,375**

4. Receivables from non-exchange transactions

	2021	2020
Property rates	42,303,106	45,365,235
Traffic fines	2,938,827	2,469,127
Provision for bad debts - Property rates	(12,244,408)	(12,134,917)
Provision for bad debts - Traffic fines	(1,454,822)	(1,333,298)
	31,542,703	**34,366,147**

Property rates	2021	2020
Current (0 - 30 days)	1,929,901	3,015,584
31 -60 days	425,537	(195,336)
61 - 90 days	462,381	905,811
91 - 120 days	572,147	932,562
121 - 365 days	38,913,140	40,706,614
	42,303,106	**45,365,235**

Traffic fines	2021	2020
121 - 365 days	483,191	388,407
>365 days	2,455,646	2,080,720
	2,938,837	**2,469,127**

No statutory receivables balances were pledged as security in current year.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

4. Receivables from non-exchange transactions (continued)

Credit quality of statutory receivables transactions

The credit quality of statutory that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Summary of debtors by customer classification

Consumers/ Residential		
Current (0 -30 days)	315,077	315,474
31 - 60 days	156,847	168,574
61- 90 days	133,030	160,069
91 - 120 days	134,770	162,935
121 - 365 days	13,079,250	12,515,410
	13,818,974	**13,322,462**

Industrial/ Commercial		
Current (0 -30 days)	1,427,365	2,416,849
31 -60 days	155,845	(483,877)
61 -90 days	287,429	622,949
91 -120 days	318,670	654,516
121-365 days	17,503,920	15,335,506
	19,693,229	**18,545,943**

National and provincial government		
Current (0 -30 days)	365,924	421,427
31 -60 days	170,551	229,583
61 -90 days	108,362	227,922
91 -120 days	174,154	223,023
121 -365 days	16,675,215	22,420,189
	17,494,206	**23,522,144**

Vacant Land		
Current (0 -30 days)	138,492	77,739
31 -60 days	53,218	39,822
61 -90 days	44,155	38,081
91 - 120 days	50,325	33,942
121 -365 days	2,979,168	2,297,951
	3,265,358	**2,487,535**

Totals		
Current (0 -30 days)	2,246,859	3,231,489
31 -60 days	536,460	(45,898)
61 -90 days	572,975	1,049,021
91 -120 days	677,920	1,074,416
121 -365 days	50,237,555	52,569,056
	54,271,769	**57,878,084**

None of the financial assets that are fully performing have been renegotiated in the last year.

Included in receivables from non-exchange transactions is statutory receivables as detailed below

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

4. Receivables from non-exchange transactions (continued)

Statutory receivables past due but not impaired

Statutory receivables transactions which are less than 2 months past due are not considered to be impaired. At 30 June 2021, R 2,853,241 (2020: R 2,111,156) were past due but not impaired.

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

1 month past due	1,983,936	1,581,021
2 months past due	869,305	530,135

Statutory receivables impaired

As of 30 June 2021, statutory receivables transactions of R 49,083,427 (2020: R 45,151,024) were impaired and provided for.

The amount of the provision was R 13,468,215 as of 30 June 2021 (2020: R 11,264,800).

The ageing of these statutory receivables is as follows:

3 to 6 months	1,379,639	1,116,672
Over 6 months	47,703,788	44,034,352

Reconciliation of provision for impairment of statutory receivables

Opening balance	13,468,215	11,264,800
Provision for bad debts	245,607	2,203,415
	13,713,822	**13,468,215**

Statutory debtors disclosed above are accounted for in accordance with GRAP 108 requirements. Below is a detailed description of all municipal statutory debtors:

Property rates are governed by The Local Government: Municipal Property Rates Act 6 of 2004. Property rates values are calculated based on market value of properties as per applicable valuation roll. Provision for bad debts on statutory debtors is determined risk profile of each customer and default rate per risk profile as determined by the municipality. The main trigger for impairment loss on statutory debtors is late payment or non-payment of accounts by customers. Simple interest rate is charged on property rates at 18% per annum.

Traffic fines are governed by Administrative Adjudication of Road Traffic Offences Act, No. 46 of 1998 (AARTO) and National Road Traffic Act, No. 93 of 1996 of South Africa. Traffic fines charged are determined by The National Road Traffic Offence Charge Book. Due to high rate of default payments of traffic fines, the municipality provides for bad debts at rate of 50% of the outstanding balance. No interest is charged for traffic fines statutory receivables.

5. VAT Receivable

VAT output payables and VAT input receivables are shown in note .
All VAT returns have been submitted by the due date throughout the year.

	2021	2020
VAT input receivable	5,057,361	1,012,470
VAT control account	2,440,562	1,289,968
VAT output payable	(858,255)	(707,163)
	6,639,668	**1,595,275**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

6. Cash and cash equivalents (continued)

Petty Cash	-	(4,930)
Bank balances	14,661,840	8,329,640
Cashier Collection clearing account	1,180	3,275
	14,663,020	**8,327,985**

The maximum petty cash amount is **R 5 000** as per petty policy. All the petty cash slips for specific month are submitted and capture in that specific month, however the cheque to refill the petty cash will only be processed in the following month. As at end of each month, the petty cash account will have a negative balance that will be cleared in the following month. As at 30 June 2021, petty cash slips was been captured and the cheque will be deposited in subsequent periods.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
First National Bank Cheque Account 531-5327-8884	14,526,425	8,154,582	3,915,928	14,526,425	8,154,582	3,915,928
First National Bank Licensing Cheque Account - 622-0376-1962	79,256	117,995	120,885	99,776	123,775	135,625
First National Bank MIG Cheque Account - 622-0222-6751	15,370	27,911	25,689	15,370	27,911	25,689
First National Bank Call Account - 613-1500-0549	-	3,136	2,605,549	-	3,136	2,605,549
First National Bank Cheque Account - 623-7063-9373	-	882	80,884	-	882	80,884
First National Bank Cheque Account - 623-7306-3222	1,062	3,278	303,923	1,062	3,278	303,923
First National Bank Cheque Account - 623-7063-8573	114	16,075	15,882	114	16,075	15,882
First National Bank 7 Day Notice Deposit Account - 744-2706-5468	19,093	1	1	19,093	1	1
Total	**14,641,320**	**8,323,860**	**7,068,741**	**14,661,840**	**8,329,640**	**7,083,481**

The balance as per the bank statement is lower than the balance as per cash book by **R20 520**. This is due to outstanding deposits on FNB Licence Cheque Account-622 0376 1962 arising from 2016/17 financial period. The amount of **R5780** was for 2016/17 and **R14 740** was cash on hand as at 30 June 2021.

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment

	2021			2020		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	5,754,293	-	5,754,293	5,754,293	-	5,754,293
Buildings	16,219,873	(3,354,017)	12,865,856	11,874,433	(2,810,605)	9,063,828
Leased Assets	4,686,832	(605,822)	4,081,010	280,929	(160,673)	120,256
Plant and machinery	4,678,645	(1,660,411)	3,018,234	4,602,433	(2,301,300)	2,301,133
Furniture and fixtures	3,714,291	(1,697,944)	2,016,347	2,781,667	(2,039,438)	742,229
Motor vehicles	10,303,603	(8,992,163)	1,311,440	10,227,603	(7,570,833)	2,656,770
IT equipment	2,552,385	(1,803,322)	749,063	2,076,537	(1,349,467)	727,070
Infrastructure	193,547,191	(43,918,677)	149,628,514	177,381,381	(38,208,452)	139,172,929
Community	215,706,594	(61,963,805)	153,742,789	207,938,718	(50,819,806)	157,118,912
Storm water infrastructure	19,961,461	(4,664,610)	15,296,851	11,754,426	(2,928,703)	8,825,723
Landfill site asset	7,202,645	(3,721,293)	3,481,352	6,835,976	(3,202,179)	3,633,797
Total	**484,327,813**	**(132,382,064)**	**351,945,749**	**441,508,396**	**(111,391,456)**	**330,116,940**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Transfers received	Transfers	Landfill site adjustment	Depreciation	Impairment reversal /(loss)	Change in estimate	Total
Land	5,754,293	-	-	-	-	-	-	-	5,754,293
Buildings	9,063,828	4,345,434	-	-	-	(543,406)	-	-	12,865,856
Leased assets	120,256	4,405,903	-	-	-	(445,149)	-	-	4,081,010
Plant and machinery	2,301,133	76,212	-	-	-	(528,372)	-	1,169,261	3,018,234
Furniture and fixtures	742,229	932,624	-	-	-	(443,344)	-	784,838	2,016,347
Motor vehicles	2,656,770	75,922	-	-	-	(1,421,252)	-	-	1,311,440
IT equipment	727,070	475,845	-	-	-	(471,487)	17,635	-	749,063
Infrastructure	139,172,929	15,732,910	12,710,590	(12,277,669)	-	(5,699,681)	(10,565)	-	149,628,514
Community	157,118,912	7,430,211	10,829,643	(10,492,008)	-	(11,143,969)	-	-	153,742,789
Storm water infrastructure	8,825,723	8,207,035	-	-	-	(1,663,382)	(72,525)	-	15,296,851
Landfill site asset	3,633,797	-	-	-	366,669	(519,114)	-	-	3,481,352
	330,116,940	**41,682,096**	**23,540,233**	**(22,769,677)**	**366,669**	**(22,879,156)**	**(65,455)**	**1,954,099**	**351,945,749**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2020

	Opening balance	Additions	Disposal	Transfers received	Transfers	Prior Period Adjustment	Donations	Landfill site Asset Adjustment	Depreciation	Impairment loss	Write-off	Total
Land	5,754,293	-	-	-	-	-	-	-	-	-	-	5,754,293
Buildings	11,853,672	2,818,531	-	-	-	(9,546,110)	4,267,524	-	(162,442)	(167,347)	-	9,063,828
Leased Assets	324,573	-	-	-	-	-	-	-	(93,643)	-	(110,674)	120,256
Plant and machinery	1,712,491	1,349,399	-	158,920	-	-	58,681	-	(378,575)	-	(599,783)	2,301,133
Furniture and fixtures	710,953	335,171	-	-	-	-	-	-	(225,639)	-	(78,256)	742,229
Motor vehicles	3,928,527	145,140	-	-	-	-	-	-	(1,416,897)	-	-	2,656,770
IT equipment	793,441	471,217	(363,328)	-	-	-	-	-	(288,616)	-	114,356	727,070
Infrastructure	127,177,786	17,421,340	-	13,460,271	(13,460,271)	42,661	-	-	(5,468,858)	-	-	139,172,929
Community	158,822,068	10,139,347	-	23,380,782	(23,380,782)	214,760	-	-	(10,689,539)	(1,367,724)	-	157,118,912
Storm water Infrastructure	9,070,743	1,418,362	-	-	-	-	-	-	(1,663,382)	-	-	8,825,723
Landfill site asset	3,613,974	-	-	-	-	-	-	734,668	(714,845)	-	-	3,633,797
	323,762,521	**34,098,507**	**(363,328)**	**36,999,973**	**(36,841,053)**	**(9,288,689)**	**4,326,205**	**734,668**	**(21,102,436)**	**(1,535,071)**	**(674,357)**	**330,116,940**

Pledged as security

No assets were pledged as security in the current year.

Reconciliation of Work-in-Progress 2021

	Infrastructure Assets	Community Assets	Storm water assets	Buildings	Total
Opening balance	13,610,768	10,499,012	1,418,522	198,700	25,727,002
Additions/capital expenditure	15,732,910	6,586,133	8,207,035	-	30,526,078
Transferred to completed items	(12,277,663)	(10,491,836)	-	-	(22,769,499)
	17,066,015	**6,593,309**	**9,625,557**	**198,700**	**33,483,581**

7. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Infrastructure Assets	Community Assets	Storm water assets	Buildings	Total
Opening balance	9,649,699	23,740,447	-	-	33,390,146
Additions/capital expenditure	17,421,340	10,139,347	1,418,522	198,700	29,177,909
Transferred to completed items	(13,460,271)	(23,380,782)	-	-	(36,841,053)
	13,610,768	**10,499,012**	**1,418,522**	**198,700**	**25,727,002**

Included in property, plant and equipment are property that have been identified as taking significantly longer period of time to complete than expected, due to the following:

Emaye Sportfield - The project is taking longer than planned. The reason for stopping was due to lack of funding. **R144,678** was incurred as at 30 June 2019 and not further expenditure up to the year ended 30 June 2021..

Foma Road - The project is taking longer than planned since the municipality has only allocated a budget in the 2019/2020 financial period for the respective project. No Additional work was performed during the year due to lack of funding. The carrying amount of this project is **R101,869** included in property plant and equipment.

Mfanela Road / Causeway - The project is taking longer than planned as the municipality is still in the tender process. The carrying amount of the project as at 30 June 2019 is **R96,793**. Additional expenditure of **R81,158** was incurred for the year ending 30 June 2021.

Mangomhlophe Sportsfield - The previous contractor's services were terminated due to under-performance. A new contractor was appointed and the carrying amount of the project is **R 636,532.66** as at 30 June 2021.

Animal Pound Building - The delay are mainly due to funding issues. **R1 545 000** has been spent on this project in prior and current year.

Bandlaneni Community Hall - The delays are due to funding issues. **R 132 880.95** has been spent on this project in prior and current year.

Mangqeshaneni Hall - The delays were due to funding issues. **R 89 024.02** has been spent on this project in prior and current year.

Testing Grounds - The delays were due to funding issues. **R2 858 669.6** has been spent on this project in prior and current year.

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		
Maintenance of Buildings and Facilities	8,548,225	6,690,740
Maintenance of Equipment	101,236	39,801
Maintenance of Infrastructure assets	10,506,765	8,266,196
	19,156,226	**14,996,737**

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.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

8. Intangible assets

	2021			2020		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,823,540	(1,780,124)	43,416	1,823,540	(1,704,042)	119,498

Reconciliation of intangible assets - 30 June 2021

	Opening balance	Change in estimate	Amortisation	Total
Computer software	119,498	(15,820)	(60,262)	43,416

Reconciliation of intangible assets -30 June 2020

	Opening balance	Amortisation	Total
Computer software	244,708	(125,210)	119,498

Pledged as security

No Intangible assets were pledged as security.

9. Finance lease obligation

	2021	2020
Minimum lease payments due		
- within one year	815,589	147,019
- in second to fifth year inclusive	3,421,976	42,243
	4,237,565	189,262
less: future finance charges	(34,379)	(13,228)
Present value of minimum lease payments	**4,203,186**	**176,034**

	2021	2020
Present value of minimum lease payments due		
- within one year	815,589	136,341
- in second to fifth year inclusive	3,387,597	39,693
	4,203,186	**176,034**

	2021	2020
Non-current liabilities	3,387,597	39,693
Current liabilities	815,589	136,341
	4,203,186	**176,034**

Cellular and communication devices
The municipality procured cellular and communication devices over a period of twenty four (24) months which have been classified as finance leases. Monthly instalments are payable in arrears. The average interest rate implicit in respective lease contracts is approximately 10.5% (2020: 10.5%) All leases have fixed repayments and no arrangements have been entered into for contingent lease rentals.

Motor vehicles
The municipality procured motor vehicles over a period of five years which have been classified as finance leases. Monthly instalments are payable in arrears. The average interest rate implicit in respective lease contracts is approximately 10.5%. All leases have fixed repayments and no arrangements have been entered into for contingent lease rentals.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

10. Payables from exchange transactions

Trade payables	36,192,354	27,842,045
Insurance amounts payables	294,876	297,549
Accrued bonus	1,952,833	2,725,849
Garnish Payable	14,602	17,777
Deposits received	10,984	22,234
Leave pay accrual	10,160,219	9,274,477
Skills Development Levy liability	128,184	-
Accrued expenses	4,237,367	4,237,367
Debtors with credit balances	445,686	746,831
Retention Liability	6,353,422	4,269,691
PAYE Deductions	2,407,640	1,249,669
Salary Clearing Account	98,037	56,398
Payable - Unions	15,578	14,903
Pension deductions Liability	3,446,084	1,695,799
Unemployment Insurance Fund	171,363	87,517
Unallocated Deposits	603,006	943,326
Party Deductions & Caucus Payable	65,411	73,117
Medical aid payable	630,221	595,306
Bargaining Council Payable	9,354	9,277
	67,237,221	**54,159,132**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

11. Employee benefit obligations

Defined benefit plan

The defined benefit plan relate to long service award that will be paid to municipal staff after completion of 5 years working for the municipality.

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3,525,598)	(3,548,497)
Service Costs	(1,049,402)	22,899
	(4,575,000)	**(3,525,598)**

Non-current liabilities	(3,800,234)	(3,252,832)
Current liabilities	(774,766)	(272,766)
	(4,575,000)	**(3,525,598)**

Net expense recognised in the statement of financial performance

Current service cost	426,299	449,013
Finance costs	312,825	292,221
Actuarial (gains) losses	585,783	(415,896)
Settlement	(275,505)	(348,237)
	1,049,402	**(22,899)**

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

Opening balance	(3,525,598)	(3,548,497)
Service costs	(426,299)	(449,013)
Actuarial gains (losses)	(585,783)	415,896
Finance costs	(312,825)	(292,221)
Benefits paid	275,505	348,237
	(4,575,000)	**(3,525,598)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.23 %	8.66 %
Consumer Price Index	4.57 %	5.25 %
Expected increase in salaries	5.57 %	6.25 %

Nongoma offers bonuses for every 5 years of completed service from 10 years to 45 years. Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. Nongoma advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

The methodology of setting financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2020 the duration of liabilities was 8.01 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 27 June 2020 is 8.66% per annum, and the yield on inflation-linked bonds of a similar term was about 3.24% per annum. This implies an underlying expectation of inflation of 4.57% per annum ([1 + 9.23%] / [1 + 3.24%] - 1).

It is assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 6.25% per annum. However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 2.27% per annum ([1 + 8.66%] / [1 + 6.25%] - 1).

Figures in Rand	2021	2020

11. Employee benefit obligations (continued)

Demographic and decrement assumptions

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

	2021	2020
Normal retirement age (years)*	65	65
Average retirement age (years)	63	63
Mortality	SA85-90	SA85-90

*The average retirement age for all active employees was assumed to be 63 years to implicitly allow for ill-health and early retirements.

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Kwakhetha Modula Grant	238,360	-

13. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Total
Environmental rehabilitation	7,078,543	366,669	7,445,212

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Environmental rehabilitation	6,343,875	734,668	7,078,543

The provision for rehabilitation of landfill sites relate to the legal obligation to rehabilitate the landfill sites used for waste disposal in according with the National Environmental Management Act No 107 of 1998 and Environmental Conservation Act No 73 of 1989. It is calculated as the present value of the expenditure expected to be required to settle the future obligation to rehabilitate the landfill sites.

Environmental rehabilitation provision

The provision for rehabilitation for landfill site represents management's best estimate of the municipality's liability relating to closure and rehabilitation of the landfill site. Decommissioning costs includes costs associated with decommissioning end-use infrastructure, compacting works, capping, top-up soling and vegetation as well as construction of stormwater control systems. The discount rate used for the present value calculation was based on GOVI long bond and amounts to 9.35%.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

14. Revenue

Sale of goods	13,168	237,294
Service charges	1,927,752	1,773,192
Rental of facilities and equipment	174,923	211,067
Interest income from long outstanding debtors	4,196,197	4,152,775
Licences and permits	838,861	599,819
Commissions received	90,492	90,212
Insurance received	63,377	21,000
Interest received - investment	706,290	1,348,759
Property rates	25,750,907	24,304,299
Donations received	-	4,326,205
Government grants & subsidies	305,708,614	333,825,601
Fines, Penalties and Forfeits	469,721	389,340
	339,940,302	**371,279,563**

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

Sale of goods	13,168	237,294
Service charges	1,927,752	1,773,192
Rental of facilities and equipment	174,923	211,067
Interest income from long outstanding debtors	4,196,197	4,152,775
Licences and permits	838,861	599,819
Commissions received	90,492	90,212
Recoveries	63,377	21,000
Interest received - investment	706,290	1,348,759
	8,011,060	**8,434,118**

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

Taxation revenue		
Property rates	25,750,907	24,304,299
Donation received	-	4,326,205
Transfer revenue		
Government grants & subsidies	305,708,614	333,825,601
Fines, Penalties and Forfeits	469,721	389,340
	331,929,242	**362,845,445**

15. Service charges

Refuse removal	1,927,752	1,773,192

16. Rental of facilities and equipment

Premises		
Premises	125,118	103,095
Facilities and equipment		
Rental of facilities	49,805	107,972
	174,923	**211,067**

17. Licences and permits (exchange)

Road and Transport	838,861	599,819

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

18. Commission received and Insurance refunds

Commissions received	90,492	90,212
Insurance Refunds	63,377	21,000
	153,869	**111,212**

Nongoma Local municipality receives commission from medical aid companies that are providing medical aid cover to its employees.

Insurance refunds relates to claims made by the municipality to its insurer for accidents relating to municipal vehicles.

19. Interest received - investment

Interest revenue		
Bank	706,290	1,348,759

20. Property rates

Rates received

Residential	1,201,326	1,270,386
Commercial	12,090,685	11,214,670
State	12,350,304	11,654,276
Public Service Infrastructure	-	50
Vacant Land	108,592	164,917
	25,750,907	**24,304,299**

Valuations

Residential	167,482,000	168,672,000
Commercial	305,050,000	363,330,000
Special	959,325,000	913,885,000
Public Infrastructure	22,000	22,000
Vacant Land	10,987,000	9,717,000
Rural Community Land	397,810,000	397,810,000
	1,840,676,000	**1,853,436,000**

General valuations on land and buildings are performed every 4 years in terms of the Municipal Property Rates Act. The last general valuation came into effect on 1 July 2019.

The supplementary valuation roll was performed on annual basis to take into account building additions, changes, subdivisions and consolidations.

Property rates are levied on a monthly basis.

21. Donation Received

Municipal Offices received from Department of Public Works	-	3,658,764
Lawnmowers received from Department of Arts and Culture	-	58,681
Office building received from NGO	-	608,760
	-	**4,326,205**

In the year ending 30 June 2020 the municipality received lawnmowers, turf line marking machines and brush cutters from department of agriculture.

Figures in Rand	2021	2020

22. Government grants and subsidies

Operating grants		
Equitable share	194,844,000	154,506,000
Kwakhetha modular library grant	398,640	-
Financial Management Grant (FMG)	1,900,000	1,970,000
Osuthu Modular Library Grant	637,000	951,800
LG SETA	377,774	288,284
Cyber Cadet Library Grant	226,000	211,000
Provincial Grant - Libraries	905,000	880,000
Extended Public Works Programme	2,099,000	2,016,000
School Patrol Grant	264,377	403,820
Sport Grant	-	45,884
Disaster Management Grant - Covid 19	-	1,192,000
	201,651,791	**162,464,788**
Capital grants		
Housing grant	72,766,823	139,487,813
Municipal Infrastructure Grant	31,290,000	31,873,000
	104,056,823	**171,360,813**
	305,708,614	**333,825,601**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	110,864,614	179,319,601
Unconditional grants received	194,844,000	154,506,000
	305,708,614	**333,825,601**

Equitable Share

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

Extended Public Works Programme

Current-year receipts	2,099,000	2,016,000
Conditions met - transferred to revenue	(2,099,000)	(2,016,000)
	-	-

Municipal Infrastructure Grant

Current-year receipts	31,290,000	31,873,000
Conditions met - transferred to revenue	(31,290,000)	(31,873,000)
	-	-

Financial Management Grant (FMG)

Current-year receipts	1,900,000	1,970,000
Conditions met - transferred to revenue	(1,900,000)	(1,970,000)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

22. Government grants and subsidies (continued)

LG SETA

Current-year receipts	377,774	288,284
Conditions met - transferred to revenue	(377,774)	(288,284)
	-	-

Provisional grant - libraries

Current-year receipts	905,000	880,000
Conditions met - transferred to revenue	(905,000)	(880,000)
	-	-

School patrol grant

Current-year receipts	264,377	403,820
Conditions met - transferred to revenue	(264,377)	(403,820)
	-	-

Disaster management grant - Covid 19

Current-year receipts	-	1,192,000
Conditions met - transferred to revenue	-	(1,192,000)
	-	-

Cyber Cadet Library Grant

Current-year receipts	226,000	211,000
Conditions met - transferred to revenue	(226,000)	(211,000)
	-	-

KwaKhetha Moduler Library Grant

Current-year receipts	637,000	-
Conditions met - transferred to revenue	(398,640)	-
	238,360	-

Intergrated National Electrification Programme Grant

Current-year receipts	8,400,000	8,000,000
Conditions met - transferred to revenue	(8,400,000)	(8,000,000)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Osuthu Modular Library Grant

Balance unspent at beginning of year	-	356,800
Current-year receipts	637,000	595,000
Conditions met - transferred to revenue	(637,000)	(951,800)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

22. Government grants and subsidies (continued)

Sport Grant

Balance unspent at beginning of year	-	45,884
Conditions met - transferred to revenue	-	(45,884)
	-	-

Housing grant

Current-year receipts	72,766,823	139,487,813
Conditions met - transferred to revenue	(72,766,823)	(139,487,813)
	-	-

23. Fines, Penalties and Forfeits

Fines, Penalties and Forfeits	469,721	389,340

Figures in Rand	2021	2020

24. Employee related costs

Basic	67,496,052	63,374,986
Bonus	5,324,849	4,931,587
Medical aid - company contributions	4,159,071	3,769,307
UIF	493,311	480,736
Leave pay provision charge	1,704,662	1,996,097
Standby Allowance	1,125,247	980,428
Cellphone and telephone allowance	1,006,188	623,000
Defined contribution plans	13,828,802	13,614,584
Travel, motor car, accommodation, subsistence and other allowances	6,014,961	6,079,989
Overtime payments	910,997	1,251,295
Long-service awards	487,220	630,263
Acting allowances	494,556	66,717
Housing benefits and allowances	350,156	331,402
Bargain Council	33,972	31,160
Termination benefits	-	559,426
	103,430,044	**98,720,977**

Remuneration of Municipal Manager

Annual Remuneration	862,104	842,857
Travel Allowances	287,368	317,614
Contributions to UIF, Medical and Pension Funds	1,813	1,786
Skills Development Levy and Bargain Council	8,438	8,786
Travel Claim	54,110	100,252
Back Pay	-	36,037
Cellphone allowances	42,000	32,000
	1,255,833	**1,339,332**

Remuneration of Chief Financial Officer

Annual Remuneration	659,295	668,424
Travel allowances	219,765	241,715
Performance Bonuses	9,874	-
Contributions to UIF, Medical and Pension Funds	1,813	1,785
Cell phone allowance	42,000	-
Skills Development Levy and Bargain Council	7,194	7,397
Back Pay	-	32,524
Travel claim	1,389	56,239
	941,330	**1,008,084**

Remuneration of executive directors- Technical

Annual Remuneration	423,833	603,672
Travel allowances	141,278	220,131
Travel Claim	1,835	56,239
Contributions to UIF, Medical and Pension Funds	1,190	1,636
Skills Development Levy and Bargain Council	6,089	7,388
Back Pay	-	32,524
Leave pay	35,745	-
Cell phone allowance	28,000	-
	637,970	**921,590**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

24. Employee related costs (continued)

Remuneration of executive directors- Social Services

Annual Remuneration	848,336	795,290
Travel allowances	59,796	57,741
Back pay	-	37,715
Contributions to UIF, Medical and Pension Funds	58,219	54,565
Skills Development Levy and Bargain Council	9,964	9,446
Travel Claim	245,504	243,248
Leave pay	-	37,715
Cell phone allowance	45,500	-
	1,267,319	**1,235,720**

Remuneration of Corporate Services and Human Resources

Annual Remuneration	64,752	687,809
Travel allowance	21,584	222,330
Leave pay	8,322	-
Contributions to UIF, Medical and Pension Funds	149	1,785
Back Pay	-	32,524
Skills Development Levy and Bargain Council	10	7,862
Travel Claim	-	76,508
Cellphone allowance	3,500	42,000
	98,317	**1,070,818**

25. Remuneration of councillors

Mayor	866,658	866,658
Deputy Mayor	670,482	673,329
Speaker	670,491	670,491
Councillors	10,915,703	11,128,218
Councillors' pension contribution	927,172	911,935
	14,050,506	**14,250,631**

In-kind benefits

The Mayor, Deputy Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has five full-time bodyguards. The Deputy Mayor has three full-time bodyguards.

The Speaker has four full time bodyguards.

26. Depreciation and amortisation

Property, plant and equipment	20,925,059	21,102,514
Intangible assets	76,082	125,210
	21,001,141	**21,227,724**

27. Impairment loss

Impairments

Property, plant and equipment	65,457	1,535,070

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

28. Finance costs

Late payment to SARs and suppliers	328,702	161,783
Finance leases	255,383	27,682
Interest on long service awards	312,825	292,221
	896,910	**481,686**

29. Lease rentals on operating lease

Equipment		
Contractual amounts	976,780	5,294,693

30. Provision for bad debts expenses

Contributions to debt impairment provision	285,129	2,768,900
Bad debts written off	9,683,293	838,082
	9,968,422	**3,606,982**

31. Contracted services

Outsourced Services		
Burial Services	375,527	698,731
Contract expenditure - Housing	72,766,823	139,538,682
Catering Services	389,804	474,344
Cleaning Services	365	14,950
Internal Auditors	1,733,000	530,980
Personnel and Labour	60,000	-
Professional Staff	974,903	1,090,946
Refuse Removal	3,012,100	3,468,111
Security Services	114,737	72,692
Transport Services	-	677,543
Consultants and Professional Services		
Business and Advisory	9,343,653	9,880,733
LED Projects	1,138,560	464,935
Contractors		
Artists and Performers	66,750	16,000
Catering Services	491,236	627,122
Event Promoters	1,069,211	209,356
First Aid	36,760	29,900
Fire Services	333,140	59,350
Interior Decorator	15,000	56,940
Maintenance of Buildings and Facilities	8,548,225	5,320,704
Maintenance of Equipment	101,236	39,801
Maintenance of Unspecified Assets	10,506,765	8,266,196
Pest Control and Fumigation	94,000	59,729
Transportation	592,676	363,920
Safeguard and Security	6,284,256	5,294,674
Stage and Sound Crew	26,000	112,300
	118,074,727	**177,368,639**

32. Free basic electricity

Free basic electricity	113,451	57,873

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

33. General expenses

Accounting fees	1,328,042	2,217,122
Advertising	2,318,245	1,561,464
Auditors remuneration	1,486,891	1,562,008
Bank charges	192,592	76,680
Cleaning	4,973,739	5,091,000
Administration	4,968	-
IT expenses	2,670,251	1,331,702
Consumables	2,692,852	1,513,945
Bursaries	525,015	150,000
Entertainment	26,087	48,243
Hiring Charges	6,438,276	5,137,631
Insurance	900,806	754,505
Conferences and seminars	-	19,130
Disaster management costs - COVID 19 Response	5,020,437	4,324,905
Motor vehicle expenses	34,887	37,841
Fuel and oil	1,272,219	1,190,208
Postage and courier	585	-
Printing and stationery	2,159,353	924,743
Annual License fees	132,207	617,223
Remuneration of ward committees	1,974,900	1,176,600
Subscriptions and membership fees	1,793,458	683,739
Telephone and fax	3,113,275	2,248,657
Disaster Management expenses	5,949,187	-
Skills Development Levy	693,627	640,340
Travel - local	1,258,859	2,388,495
Rewards incentives	-	189,610
Human settlement costs	-	246,750
Electricity	670,803	999,720
Uniforms and protective clothing	1,598,435	1,281,661
Other	796,023	-
Staff Training	458,124	265,931
Communication Radio and TV Transformer	706,400	977,676
Community Events Cost	2,315,080	86,569
Cleaning Materials	5,464,328	1,814,607
Workman compensation fund	-	4,664,157
	58,969,951	**44,222,862**

General expenditure increased by 33.34 % in current year compared to prior year mainly due to:

1. The increase in consumables was mainly due to security related items (pepper prays, handcuffs, hand lights gloves and masks).

3. IT expenses costs increased as well due to it works performed during the year to improve Internet connection and it operations.

3. Municipality acquired more cleaning materials such as refuse bags, toiletries and sundry consumables used by the municipality for effective service delivery.

4. Disaster management costs incurred by the municipality to respond to the impact of covid 19.

5. Increased expenditure on stationery due to increased office space and headcount.

6. Municipality held more vents hence the increased costs

7. IT expenses costs increased as well due to it works performed during the year to improve Internet connection and it operations.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

34. Auditors' remuneration

Fees	1,486,891	1,562,008

35. Cash generated from operations

Surplus	11,807,130	3,890,630
Adjustments for:		
Depreciation and amortisation	21,001,141	21,227,724
Loss on disposal of assets	-	1,037,692
Actuarial gains	585,783	(415,896)
Donation Received	-	(4,326,205)
Impairment loss	65,457	1,535,070
Bad debts expense	9,968,422	3,606,982
Movements in operating lease assets	77,602	119,434
Other non-cash items	(51,558)	(260,486)
Changes in working capital:		
Receivables from exchange transactions	(335,696)	(599,910)
Add Bad debts expenses	(9,968,422)	(3,606,982)
Receivables from non-exchange transactions	2,823,444	1,631,233
Payables from exchange transactions	13,078,092	12,452,303
VAT Receivable/ Payable	(5,044,393)	(658,761)
Unspent conditional grants and receipts	238,360	(448,858)
	44,245,362	**35,183,970**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. Commitments

Authorised capital expenditure

Contracted and approved		
Property, plant and equipment	39,756,403	14,551,962

Total capital commitments		
Contracted and approved	39,756,403	14,551,962

Authorised operational expenditure

Approved and contracted for		
Operational Commitment	8,651,057	14,330,256
Operating Lease commitments	955,054	1,910,109
	9,606,111	**16,240,365**

Total operational commitments		
Already contracted and provided for	9,606,111	16,240,365

Operating leases expense

Minimum lease payments due		
- within one year	716,291	716,291
- in second to fifth year inclusive	238,764	1,193,818
	955,055	**1,910,109**

Operating lease payments represent rentals payable by the municipality for telephone rental over 3 years.. No contingent rent is payable.

Rental expenses relating to operating leases		
Minimum lease payments	716,291	716,291

37. Contingencies

Contingent Assets and Liabilities

Nongoma Local Municipality vs KPMG (Case Number Nong33919.11)
KPMG was appointed by Nongoma local municipality as a service provider to prepare financial statements. KPMG failed to submit annual financial statement on time and further did not submit competent report. The status or progress, the municipality has elected to not proceed with the claim due to mounting legal fees. The municipality is in the process of withdrawing the claim, therefore, the municipality will attempt to close the file once the issue of costs has been adjusted between the part. The estimated financial exposure to the municipality is **R338 038.01**.

Nongoma Local Municipality vs Bargaining Uniforms
The Municipality was sued for unpaid services rendered to it. The municipality were instructed to negotiate with the Plaintiff not to execute against the municipality. Settlement was reached, The municipality agreed to make payments of R327 338.10 ("The settlement amount')'to the Plaintiff's account. This amount comprises of the principal debt of R270 806.80, legal costs of R12 581.62 and interest of R43 949.68 as November 2020.The estimated financial exposure is R21 977.50.

Nongoma Local Municipality vs MPE Mthembu
A dispute between the Municipality and the former CFO regarding the service level agreement entered by the CFO on behalf of municipality. The financial exposure related to this matter is estimated to be R 6 975.44.

Nongoma Local Municipality vs S Dlamini and Others.
S Dlamini and Others applied for Rescission of ruling. The estimated financial exposure is R160 553.91.

Nongoma Local Municipality vs Mncwango/ S Qwabe
The matter relates to alleged protected disclosure made by ex employee. The matter is with Labour Court and estimated financial exposure is R90 646.68.

Nongoma Local Municipality Vs Nashua Zululand

Nashua Zululand is suing Nongoma local Municipality for invoices which were not paid by the municipality for services or for master rental contracts in respect of electronic devices which were rented to the municipality by Nashua. Estimated financial exposure amounts to R 7,500,000.

Nongoma Local Municipality vs F. Sibiya and Others
The matter deals with fixed term employee contracts which exceeds three months. The prospects of the matter is weak and risk is reinstated.The estimated financial exposure is R15 708.02.

Nongoma Local Municipality vs SAMWU obo G Jele
The respondent alleged gross misconduct which resulted in termination .The matter is awaiting trial date to be issued by registrar of Labour Court.Estimated financial exposure is R102 775.15.

Nongoma Local Municipality vs Mr. PM Dlamini
The municipality is suing Mr. PM Dlamini for four months salary which was paid to him in terms of employment contract.Mr. Dlamini has not been at work for four months, therefore he was not entitled to receive the salary .The summon was issued and warranty of execution was lodged and granted.Unfortunately when the sheriff attempted to execute the warrant of execution at Mr. Dlamini's premises, it was learnt that Mr. Dlamini no longer resides at the premises. Therefore, the file was put on hold. The Estimated Financial exposure R35 189.57.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

37. Contingencies (continued)

Nongoma Local Municipality vs Natal Joint municipal Pension Fund
Natal joint Municipal Pension Fund is suing Nongoma Local municipal for an excessive increase of the actuarial assessment to the level of increase on which the fund is operating at the time. The increase warrants the Committee directing the Municipality to pay an adjusted contribution. The Municipality has failed to comply with the Committee direction to pay; therefore, the Fund is suing for that adjusted contribution. The estimated financial exposure is R350 000.00.

Nongoma Local Municipality vs SE Mathaba
The employee referred an unfair dismissal to the South African Local Government Bargain Council under Case Number: KPD122011. The matter has been finalised and the Commissioner ruled in favour of the employer case was dismissed. Estimated financial exposure is R262 489.46

Nongoma Local Municipality vs MR. S Ngubo
The employee sought an Legal Opinion regarding the medical boarding of employee as he is repeatedly not at work and he submitted medical certificate Opinion is being drafted and to be concluded, once the medical report is received from the relevant authorities. The estimated financial exposure is R80 000.00.

Nongoma Local Municipality vs IMATU
Pro-Rata Bonuses disputes it is alleged that the municipality discriminated against the employee who are members of IMATU regarding bonuses. Settlement negotiation resumed between the Nongoma Local Municipality representative and Imatu representative Mr. V. Mdletshe. Settlement negotiation have not yet been finalised, on receipt of further instructions same will be concluded. The estimated financial exposure R30 000.00

38. Related parties

Relationships	Nature of relationship	2021	2020
Management	Administratively in charge	Refer to note 24	Refer to accounting officer's report note 24
Councillors	Political leadership of the municipality	Refer to note 25	Refer to note 25

Related party transactions

Purchases from related parties	2021	2020
Ishishi Cleaning and Construction (Proprietary) Limited	6,600	-

During the 2020/21 financial year, Nongoma local municipality appointed Ishishi Cleaning and Construction to provide required services to the municipality. MTN Mthethwa is the director of the aforementioned entity and he is a councillor at the municipality.

39. Prior-year adjustments

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

Statement of financial position

39. Prior-year adjustments (continued)

2020

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transaction	3	7,615,881	18,274	7,634,155
Receivables from non-exchange transactions	4	39,215,285	(4,849,138)	34,366,147
Property Plant and Equipment	7	339,177,153	(9,060,213)	330,116,940
Payables from exchange transactions	10	49,494,983	4,664,146	54,159,129
Cash and Cash equivalents	6	8,329,985	(2,000)	8,327,985
Accumulated surplus		326,666,178	(13,336,115)	313,330,063
		770,499,465	**(22,565,046)**	**747,934,419**

Payables from exchange transactions balance was restated by an amount of **R4 664 146** which related to the invoices from the Department of labour which were received late and not processed in the prior year.

Receivables from Exchange transactions balance was restated by an amount of **R18 274** which related to the correction of the billing for refuse removal on privately owned properties previously classified as municipal buildings.

Receivables from non-exchange transactions have been restated by an amount of **R4 849 138** relating to the correction of the billing for property rates on privately owned properties previously classified as municipal buildings.

Property, plant and equipment balance has been restated by **R9 060 213** of which **R9 592 945** relating to the de-recognition of properties privately owned properties previously classified as municipal buildings, **R484 187** related to reversal of depreciation de-recognition of properties privately owned properties previously classified as municipal buildings and **R46 827** relating to the derecognition of leased assets and newly identified additions to building as well as **R1 718** relating to correction of accumulated depreciation.

Cash and Cash equivalents have been adjusted by **R2 000** relating the correction of petty cash balance in the prior year.

Accumulated surplus was adjusted by **R11 964 076** relating to private property, **R1 370 039** relating to expenditure processed in the incorrect period and **R2 000** petty cash.

39. Prior-year adjustments (continued)

Statement of financial performance

2020

	Note	As previously reported	Reallocation	Correction of error	Restated
Service charges	15	1,769,308	-	3,884	1,773,192
Interest income on long outstanding debtors	19	4,693,051	-	(540,276)	4,152,775
Property rates	20	24,810,674	-	(506,375)	24,304,299
Government grants & subsidies	22	194,337,788	-	139,487,813	333,825,601
Depreciation and amortisation	26	(21,713,537)	-	485,813	(21,227,724)
Contracted services	31	(37,349,847)	(530,978)	(139,487,814)	(177,368,639)
General expenditure	33	(40,089,683)	530,978	(4,664,157)	(44,222,862)
Deficit for the year		**126,457,754**	**-**	**(5,221,112)**	**121,236,642**

Revenue from exchange transaction have been restated by an amount of **R3 884** and **R540 276** relating to service charges and interest on long outstanding debtors respectively. These adjustments are due to correction of billing for refuse removal on privately owned properties previously classified as municipal buildings as well the multi-purpose centre and taxi rank interest derecognition.

Revenue from non-exchange transaction have been restated by an amount of **R506 375** relating to property rates due to correction of billing on privately owned properties previously classified as municipal buildings of **R228 916** and reversal of multi-purpose centre and taxi rank and other interest of **R735 291**. Government grants and subsidies was adjusted by **R139 487 813** relating to the housing project which was previosly not recognised as a conditional grant.

Depreciation and amortisation has been restated by **R485 813** of which **R438 986** due to the effect of prior period adjustments made depreciation on privately owned properties previously classified as municipal buildings and **R46 827** which related to the derecognition of leased assets...

Contracted services have been adjusted by **R140 018 792** of which **R139 487 814** related to the payment to the housing project and **R530 978** related to reallocation to general expenses.

General expenses have been restated by **R530 978** relating to cost previously allocated to contracted services. A further adjustment of **R4 664 157** was made relating to invoices from the Department of Labour which were received late.

Cash flow statement

Figures in Rand	2021	2020

39. Prior-year adjustments (continued)

2020

	Note	As previously reported	Reallocation	Restated
Cash flow from operating activities				
Property rates		24,435,750	432,538	24,868,288
Refuse removal		1,001,787	(406,865)	594,922
Suppliers		(80,535,272)	77,749	(80,457,523)
Finance costs		(454,004)	(27,682)	(481,686)
		(55,551,739)	**75,740**	**(55,475,999)**
Cash flow from investing activities				
Purchase of property, plant and equipment		(33,657,431)	(77,748)	(33,735,179)
Cash generated from operations				
Surplus		9,111,741	(6,591,147)	2,520,594
Depreciation		-	21,227,724	21,227,724
Finance costs		359,665	(359,665)	-
Other non cash		(75,000)	(185,486)	(260,486)
Movement in employee obligations		(22,899)	22,899	-
Unspent conditional grants and receipts		(686,514)	237,656	(448,858)
Consumables held for distribution to the community		193,760	(193,760)	-
Receivables from exchange transactions		(581,636)	(18,274)	(599,910)
Receivables from non-exchange transactions		(1,455,556)	3,086,789	1,631,233
		6,843,561	**17,226,736**	**24,070,297**

MFMA: PAYE and UIF

In the prior year, the MFMA disclosure was mistated. A correction of **R122 030** on the payment made has been made relating to PAYE and UIF.

40. Risk management

Financial risk management

COVID-19 Risk assessment

Revenue
There has been a slowdown in the level of collection from debtors. On the assessment of these delays, they have not impacted the assessment of doubtful debt.

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.

	2021	2020
Payables from exchange transactions	67,237,222	54,159,127
Employee obligation	774,766	272,766
Unspent conditional Grant	238,360	(237,656)
Finance Lease Obligation	815,589	136,341

40. Risk management (continued)

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. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

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

Financial instrument	2021	2020
Trade Receivables from Exchange transaction	7,969,851	7,634,155
Trade Receivables from Non Exchange transactions	31,542,703	34,366,147
Cash and cash Equivalents	14,663,020	8,327,985
VAT Receivables	6,639,668	1,595,275

Market risk

Interest rate risk

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

41. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality will continue to get funds through government grants and cashflows from services rendered.

During the financial year ending 30 June 2021, the world continued experience the Covid-19 pandemic of which Nongoma Local Municipality had to comply with the disaster management preventive measures and procedures as addressed by the president of the republic of South Africa on the 25th of March 2020. This result to the closure of the municipality for a prescribed period and only essential service providers were working.

The wide-ranging effects of the virus and the restrictions imposed were taken into account including the possible impact on service delivery, purchasing of goods and services required to enable service delivery. The working capital cycle impact which may severely affect the entity's ability to settle its debts as they become due as well as default on payments on loans and facilities was also considered.

Revenue fines, penalties,service charges, licenses and permits are some of the income streams which were hit hardly by the effects of this pandemic and the municipality figures are below anticipated amounts. The effects of the pandemic were also factored in the calculations of provision for bad debts as required by GRAP 104.

Based on the above discussion, the financial statement have been prepared on a going concern as the effect of the pandemic is going down and the municipality will continue receive funding support from the government.

42. Events after the reporting date

The municipality is not aware of any condition or event subsequent to year end that has material impact on the financial information disclosed herewith.

Figures in Rand	2021	2020

43. Unauthorised expenditure

Opening balance as previously reported	9,194,404	94,348,248
Add: Expenditure identified - current	26,546,551	34,808,181
Less: Approved by Council (written off)	(35,740,955)	(119,962,025)
	-	**9,194,404**

Unauthorised expenditure is mainly due to actual expenditure more than budgeted amount. The municipality implemented the MPAC recommendations to write-off unauthorised expenditure as per the final report provided.

Investigation of prior year unauthorised expenditure of **R9 194 404** was completed and approved for write-off as irrecoverable. The current year expenditure of **R26 546 551** was investigated and Council recommended that this expenditure be written-off.

Analysed as follows: non-cash

Employee related cost	3,113,768	8,411,674
Depreciation and amortisation	1,140	12,114,654
Finance charges	28,207	181,686
Impairment loss	65,457	1,535,070
Provision for impairment	5,968,422	2,806,982
	9,176,994	**25,050,066**

Analysed as follows: cash

Contracted services	10,520,699	4,463,422
General expenditure	5,872,078	-
Other	976,780	5,294,693
	17,369,557	**9,758,115**

Unauthorised expenditure: Budget overspending – per municipal department:

Technical	(7,459,503)	-
Executive and council	-	(3,419,720)
Community	(9,457,076)	(883,688)
Corporate	(3,494,165)	(9,184,709)
Disaster	(3,156,689)	(6,551,206)
Library	(1,357,344)	-
Management	(1,457,084)	(7,820,211)
Public safely	(66,641)	-
Planning	-	(4,142,828)
Tourism	-	(21,721)
Waste	(98,049)	(2,784,098)
	(26,546,551)	**(34,808,181)**

44. Fruitless and wasteful expenditure

Opening Balance	286,251	1,250,305
Current year Movement	-	451,114
Amounts written-off 2017/18 and before	-	(867,257)
Amount written -off -2019/20	-	(289,411)
Amount written -off -2018/19	-	(258,500)
Amount written - off - 2020/21	(286,251)	-
	-	**286,251**

Figures in Rand	2021	2020

44. Fruitless and wasteful expenditure (continued)

Fruitless and wasteful expenditure is mainly due to late payment of suppliers and SARS.

Fruitless and wasteful expenditure amounts are not recoverable and municipality implemented the MPAC recommendations to write-off fruitless and wasteful expenditure as per the final report provided.

45. Irregular expenditure

	2021	2020
Opening balance	7,359,838	86,520,418
Add: Irregular Expenditure - current year	18,058,160	37,298,811
Less: Irregular expenditure written-off-2018/19	-	(17,611,362)
Less: Irregular expenditure written-off-2019/20	-	(35,591,164)
Less: Irregular expenditure written-off 2017/18 and before	-	(63,256,865)
Less: Irregular expenditure written-off-2020/21	(25,345,398)	-
	72,600	**7,359,838**

The municipality implemented the MPAC recommendations to write-off all irregular expenditure as per the final report provided.

Irregular expenditure is mainly due to non-compliance with SCM process.

46. Additional disclosure in terms of Municipal Finance Management Act

Skills Development Levy

	2021	2020
Opening balance	-	71,971
Current year subscription	693,628	640,340
Amount paid - current year	(565,443)	(712,311)
	128,185	**-**

Audit fees

	2021	2020
Opening balance	23,554	-
Current year subscription	1,708,271	1,103,236
Amount paid - current year	(1,289,026)	(1,079,682)
	442,799	**23,554**

PAYE and UIF

	2021	2020
Opening balance	1,337,185	1,495,297
Current year subscription	15,888,383	15,118,389
Amount paid - current year	(14,646,566)	(15,276,501)
	2,579,002	**1,337,185**

Pension and Medical Aid Deductions

	2021	2020
Opening balance	2,291,105	2,511,177
Current year subscription	19,309,997	18,686,408
Amount paid - current year	(17,524,797)	(18,906,480)
	4,076,305	**2,291,105**

47. Deviation from supply chain management regulations

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

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

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

Deviations from municipality supply chain management regulations for the year ended 30 June 2021 amounted to **R120 0000** and **(2020: R139,234)**

48. Budget differences

Material differences between budget and actual amounts

48. Budget differences (continued)

In this disclosure, materiality is assumed to be all the variance which are 10% or more. Explanations of identified differences are as follows:
1. Income

Revenue from exchange transactions:
(a) Revenue from sale of goods is favourable because the municipality did not allocate funds to this revenue stream during budgeting process.

(b) Rental of facilities is showing an unfavourable position due to the fact that the municipality was closed during national lockdown and activities that gives rental income were suspended during national lockdown.

(c) Interest income from debtors shows a favourable position due to the fact that customers are taking longer than anticipated to settle their accounts and this has resulted to an increase in debtors balance. The municipality anticipated to receive less funds during budgeting process.

(d) Licenses and permits are be below budgeted figures due to the fact that the municipality was closed during lock down and activities relating to licenses and permits were stopped.

(e) Commission received and insurance refunds were not budgeted for by the municipality.

(f) Interest received from investments is below budgeted amount due to the fact that municipality had to withdraw some funds from its investments and bank accounts In order to fund covid 19 activities and over-expenditure.

Revenue from non-exchange transaction:

(g) Government grants and subsidies shows a favourable position because of the housing Grant.

(h) Fines, penalties and forfeits shows a favourable balance, the municipality anticipated to receive less income from this revenue stream since it is difficult to estimate accurately.

(i) Other revenue was lower that expected due to other income that was anticipated and never materialised.

2. Remuneration of Councillors shows a favourable variance position compared to budgeted amount which is mainly due to effective and prudent budget approach exercised in this section during the preparation of the budget. Prior year amounts paid to Councillors was used as a base to come up with anticipated budgeted which will cover the cost during the year. There was an increase in the Councillors remuneration the 2020-21 financial year

3.Employee related costs were high due to new critical position not budgeted for and were filled during the financial year.

(4) Bad debts: Government departments requested that interest on their outstanding accounts be written-off was not budgeted for hence unfavourable variance experienced.

(5) Lease rental: The procurement of municipal vehicles took longer than expected.

There was no enough budget allocated to bad debts hence an unfavourable variance noted compared to the budget.

(6) Contracted Services: Mainly due to Housing expenditure that was incurred during the year which was not included in the budget. further, there has been an increase in the maintenance of building to create office space for officials.

(7) Other expenses: Disaster services requirement (COVID-19) and an increase in office space created need for more cleaning materials.

(8) Other materials: Other materials were below budget as the expeniture was not incurred in the period under review due to cost-cutting measures.

48. Budget differences (continued)

(9) Receivables from exchange and non exchange transactions reflect an unfavourable position compared to the budget due to the fact that all receivables were budgeted as consumer debtors while annual financial statement split between exchange and non-exchange as per GRAP requirement.

(10) VAT Receivable was not budgeted for hence the variance is unfavourable.

(11) Cash and cash equivalent balance is below budget due to aggressive budget approach and the municipality has to attend to the costs relating to the pandemic disease which were not budgeted for.

(**12) Property Plant and equipment** reflect a positive variance between budget and actual due to aggressive budget approach and more funds were allocated to this section.

(13) Payables from exchange transaction variance is mainly due to the fact that the municipality received invoices in June which covers the whole year's expenditure hence there is a huge increase in trade payables amount. In addition to that, there was accrued liability emanating from the Department of Labour which was not budgeted for.

(14) Finance lease obligation: This was higher than the budget due to additional vehicles which were acquired by the municipality during the financial year.

(15) Employee benefit obligation: The employee benefit obligation was higher than budget to due to the liability being catered for under provisions for budget purpses.

(**16) Provisions**: The provisions were below budget to the inclusion of employee benefit obligation under provision for budget purposes.

(**17) Borrowings**: Borrowings were not incurred by the municipality as initially expected.

(18) Unspent conditional grants and receipts: The municipaliy had planned to spend all conditional grants, however not all grants were fully spent in the current year.

(19) Intangible assets: The Intangible assets were lower than expected due to a change in accounting estimate which was not expected.

49. Disclosure for awards to close family members of persons in the service of the state

During 2020/21 financial year, Nongoma Local Municipality appointed Isandala SA Mampela Trading and projects to provide required service to the municipality. Ms H Mbatha is the director of the aforesaid entity and she is the spouse of Mr A. M Mncwango, a councillor to the municipality. A total of R 21,500 was paid for the goods and services rendered.

50. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of four major functional areas: Governance and administration, Community and public safety, Economic planning and development and Trading services. 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

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50. Segment information (continued)

Aggregated segments

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The municipality is organised and operates in three key reportable functions throughout the nine wards under Nongoma dermacations. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout uMuziwabantu were sufficiently similar to warrant aggregation.

Community and public safety: Sports and recreation, Parks and gardens, Human settlements, Library services and Community services.

Economic planning and development: Local Development and Technical departments. Trading services: Waste management and Electricity sales

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50. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Community and public safety	Economic planning and development	Trading services	Total
Revenue				
Revenue from non-exchange transactions	2,808,791	106,625,523	222,494,928	331,929,242
Revenue from exchange transactions	8,158	2,780,034	5,222,868	8,011,060
Total segment revenue	**2,816,949**	**109,405,557**	**227,717,796**	**339,940,302**
Entity's revenue				**339,940,302**
Expenditure				
Employee related costs	56,612,446	32,687,685	14,129,913	103,430,044
Remuneration of councillors	-	14,050,506	-	14,050,506
Depreciation and Amortisation	2,619,211	2,747,173	15,634,757	21,001,141
Contracted sevices	13,961,553	85,770,837	18,342,337	118,074,727
Operational cots	15,157,823	21,815,282	21,996,846	58,969,951
Other	-	-	12,021,020	12,021,020
Actuarial gains and losses	-	-	585,783	585,783
Total segment expenditure	**88,351,033**	**157,071,483**	**82,710,656**	**328,133,172**
Total segmental surplus/(deficit)				**11,807,130**
Assets				
Current assets	3,411,314	59,030	57,344,898	60,815,242
Non-current assets	166,730,439	144,546,704	40,712,022	351,989,165
Total segment assets	**170,141,753**	**144,605,734**	**98,056,920**	**412,804,407**
Total assets as per Statement of financial Position				**412,804,407**

50. Segment information (continued)

	Community and public safety	Economic planning and development	Trading services	Total
Liabilities				
Current laibilities	1,234,563	-	67,908,975	69,143,538
Non-current liabilities	-	-	14,633,043	14,633,043
Total segment liabilities	**1,234,563**	**-**	**82,542,018**	**83,776,581**
Total liabilities as per Statement of financial Position				**83,776,581**

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