MTHONJANENI LOCAL MUNICIPALITY
(REGISTRATION CODE KZN 285)

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No, 117 of 1998)
Executive Committee	
Executive Mayor	Cllr M.N. Biyela (Mayor)
	Cllr P.E. Ntombela (Deputy Mayor)
	Cllr N.A. Mbatha (Speaker)
	Cllr D.M. Dludla (Exco Member)
	Cllr M.J. Xulu (Exco Member)
	Cllr N.P. Shobede (Exco Member)
Councillors	Cllr D.F. Xulu (MPAC Chair)
	Cllr B.N. Zwane
	Cllr H.K.L Zungu
	Cllr J. Mlawu
	Cllr M.N. Ndlangamandla
	Cllr B.M.T. Sibiya
	Cllr M.V. Mchunu
	Cllr N.N. Nzuza
	Cllr P.S.M Mchunu
	Cllr S.P. Buthelezi
	Cllr S.V. Majola
	Cllr T.E. Mpungose
	Cllr T.F. Zincume
	Cllr Z.A. Sibiya
	Cllr Z.M. Mazibuko (Joined 31 May 2021)
Councillors Terminated on 12 May 2021	Cllr S.B.K. Biyela
	Cllr N.Z. Buthelezi
	Cllr E.M. Masikane
	Cllr M.Z. Ndlovu
	Cllr T.P. Ngema
Grading of Local Authority	Grade 1
Accounting Officer	Mr P.P. Sibiya
Chief Finance Officer (CFO)	Mr N.M. Myeni

General Information

Business Address	21 Reinhold Street Melmoth 3835
Postal Address	P.O. Box 11 Melmoth 3835
Contact Number	(035) 450 2082
Bankers	First National Bank
Auditors	Auditor General South Africa
Attorneys	BMM Attorneys

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The reports and statements set out below comprise the annual financial statements

GRAP	Generally Recognised Accounting Practice
COGTA	Department of Co-operative Governance and Traditional Affairs
PAYE	Pay As You Earn
UIF	Unemployment Insurance Fund
SALGA	South African Local Government Association
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
LED	Local Economic Development
COVID-19	Coronavirus Disease 2019

Accounting Officer's Responsibility 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 the 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 12 months to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The annual financial statements set out on pages 5 to 81, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 31 August 2021:

Mr P.P. Sibiya
Accounting Officer

Statement of Financial Position as at 30 June 2021

Figures in Rand	Notes	2021	2020 Restated*
ASSETS			
Current Assets			
Inventories	3	971 780	738 578
Receivables from Non-Exchange Transactions	4	23 757 569	16 918 101
VAT Receivable	5	4 937 419	3 051 547
Receivables from Exchange Transactions	6	7 614 105	5 958 391
Cash and Cash Equivalents	7	4 662 192	4 814 291
		41 943 065	**31 480 908**
Non-Current Assets			
Biological Assets	8	1 897 269	1 211 074
Investment Property	9	75 135	92 913
Property, Plant and Equipment	10	398 334 112	384 551 460
Intangible Assets	11	62 534	81 342
Heritage Assets	12	589	589
		400 369 639	**385 937 378**
TOTAL ASSETS		**442 312 704**	**417 418 286**
LIABILITIES			
Current Liabilities			
Payables from exchange transactions	13	23 347 451	30 017 642
Consumer Deposits	14	996 692	1 025 806
Unspent Conditional Grants and Receipts	15	1 830 944	17 134
Provisions	16	7 720 506	5 571 030
		33 895 593	**36 631 612**
Non-Current Liabilities			
Provisions	16	6 757 797	5 785 459
Employee Benefit Obligation	17	3 735 897	2 356 261
		10 493 694	**8 141 720**
TOTAL LIABILITIES		**44 389 287**	**44 773 332**
NET ASSETS		**397 923 417**	**372 644 954**
ACCUMULATED SURPLUS		397 923 417	372 644 954

* See Note 50

Statement of Financial Performance

Figures in Rand	Notes	2021	2020 Restated*
REVENUE			
Revenue From Exchange Transactions			
Service Charges	18	23 854 475	23 197 904
Rental of Facilities and Equipment	19	213 920	237 187
Licenses and Permits	20	1 680 211	1 103 247
Other Income	21	1 724 520	315 668
Interest Received	22	814 600	1 318 277
Gain on Disposal of Assets		-	1 419 492
Fair Value Adjustments	23	686 195	-
Actuarial Gains		-	1 085 740
TOTAL REVENUE FROM EXCHANGE TRANSACTIONS		**28 973 921**	**28 677 515**
Revenue From Non-Exchange Transactions			
Taxation Revenue			
Property Rates	24	21 934 277	14 235 566
Property Rates - Penalties Imposed	24	1 115 802	1 321 972
Transfer revenue			
Government Grants & Subsidies	25	137 086 191	119 157 000
Fines, Penalties and Forfeits	26	195 240	507 390
TOTAL REVENUE FROM NON-EXCHANGE TRANSACTIONS		**160 331 510**	**135 221 928**
TOTAL REVENUE		**189 305 431**	**163 899 443**
EXPENDITURE			
Employee Related Costs	27	(58 138 308)	(56 102 354)
Remuneration of Councillors	28	(9 010 490)	(9 317 067)
Depreciation and Amortisation	29	(22 409 021)	(19 912 282)
Interest Paid	30	(201 340)	(990 712)
Asset Impairment	31	-	(10 275)
Lease Rentals on Operating Lease	32	(477 284)	(1 933 259)
Traffic Fines Written-Off		(378 738)	-
Bulk Purchases	33	(19 361 792)	(19 091 365)
Contracted Services	34	(26 482 002)	(21 706 766)
Loss on Disposal of Assets		(29 143)	-
Fair Value Adjustments	23	-	(1 551 163)
Actuarial Losses		(1 379 636)	-
Operational Costs	35	(26 159 206)	(27 901 214)
TOTAL EXPENDITURE		**(164 026 960)**	**(158 516 457)**
SURPLUS FOR THE PERIOD		**25 278 471**	**5 382 986**

* See Note 50

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	**367 261 966**	**367 261 966**
Changes in net assets		
Surplus for the year	5 382 988	5 382 988
Total changes	5 382 988	5 382 988
Balance at 30 June 2020	**384 702 218**	**384 702 218**
Changes in net assets		
Prior Year Adjustments	(12 057 272)	(12 057 272)
Net income (losses) recognised directly in net assets	(12 057 272)	(12 057 272)
Surplus for the year	25 278 471	25 278 471
Total recognised income and expenses for the year	13 221 199	13 221 199
Total Changes	13 221 199	13 221 199
Balance at 30 June 2021	**397 923 417**	**397 923 417**

* See Note 50

Statement of Cash Flows

Figures in Rand	Notes	2021	2020 Restated*
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Rates		17 247 672	13 870 856
Sale of Goods and Services		19 717 786	17 807 005
Grants		138 917 135	119 157 000
Interest Income		814 600	1 318 277
Cash Receipt from Disposal of Property, Plant and Equipment		2 177 035	-
		178 874 228	152 153 138
Payments			
Employee Costs		(67 148 798)	(65 419 421)
Suppliers		(76 146 067)	(51 152 496)
Interest Paid		(201 340)	(990 712)
		(143 496 205)	(117 562 629)
NET CASH FLOWS FROM OPERATING ACTIVITIES	36	**35 378 023**	**34 590 509**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	10	(36 307 698)	(35 281 621)
Net proceeds from sale of property, plant and equipment	10	777 573	2 811 611
NET CASH FLOWS FROM INVESTING ACIVITIES		**(35 530 125)**	**(32 470 010)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(152 101)**	**2 120 499**
Cash and Cash Equivalents at the beginning of the year		4 814 293	2 693 794
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**4 662 192**	**4 814 293**

* See Note 50

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2021											
Financial Performance											
Property Rates	36 037 136	(4 654 794)	31 382 342	-		31 382 342	23 050 079		(8 332 263)	73 %	64 %
Service Charges	34 702 332	-	34 702 332	-		34 702 332	23 854 475		(10 847 857)	69 %	69 %
Investment Revenue	900 000	200 000	1 100 000	-		1 100 000	814 600		(285 400)	74 %	91 %
Transfers Recognised - Operational	104 047 000	(745 000)	103 302 000	-		103 302 000	103 219 135		(82 865)	100 %	99 %
Other Own Revenue	10 674 782	2 000 000	12 674 782	-		12 674 782	4 500 086		(8 174 696)	36 %	42 %
Total revenue (excluding capital transfers and contributions)	**186 361 250**	**(3 199 794)**	**183 161 456**	**-**		**183 161 456**	**155 438 375**		**(27 723 081)**	**85 %**	**83 %**
Employee Costs	(57 202 613)	(48 000)	(57 250 613)	-	-	(57 250 613)	(58 138 308)	-	(887 695)	102 %	102 %
Remuneration of Councillors	(9 256 008)	-	(9 256 008)	-	-	(9 256 008)	(9 010 490)	-	245 518	97 %	97 %
Debt impairment	(10 900 000)	1 000 000	(9 900 000)			(9 900 000)	-	-	9 900 000	- %	- %
Depreciation and Asset Impairment	(16 833 628)	(400 400)	(17 234 028)			(17 234 028)	(22 409 021)	-	(5 174 993)	130 %	133 %
Interest Paid	-	-	-	-	-	-	(201 340)	-	(201 340)	100 %	100 %
Bulk Purchases	(24 313 350)	-	(24 313 350)	-	-	(24 313 350)	(19 361 792)	-	4 951 558	80 %	80 %
Transfers and grants	(900 000)	453 066	(446 934)	-	-	(446 934)	-	-	446 934	- %	- %
Other Expenditure	(49 486 535)	(4 177 396)	(53 663 931)	-	-	(53 663 931)	(54 906 009)	-	(1 242 078)	102 %	111 %
Total Expenditure	**(168 892 134)**	**(3 172 730)**	**(172 064 864)**	**-**	**-**	**(172 064 864)**	**(164 026 960)**	**-**	**8 037 904**	**95 %**	**97 %**
Surplus/(Deficit)	**17 469 116**	**(6 372 524)**	**11 096 592**	**-**		**11 096 592**	**(8 588 585)**		**(19 685 177)**	**(77)%**	**(49)%**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	29 098 000	6 500 000	35 598 000	-		35 598 000	33 867 056		(1 730 944)	95 %	116 %
Surplus (Deficit) after capital transfers and contributions	**46 567 116**	**127 476**	**46 694 592**	**-**		**46 694 592**	**25 278 471**		**(21 416 121)**	**54 %**	**54 %**
Surplus/(Deficit) for the year	**46 567 116**	**127 476**	**46 694 592**	**-**		**46 694 592**	**25 278 471**		**(21 416 121)**	**54 %**	**54 %**
Capital expenditure and funds sources											
Total Capital Expenditure	39 943 000	6 720 000	46 663 000	-		46 663 000	33 687 056		(12 975 944)	72 %	84 %
Sources of capital funds											
Transfers recognised - capital	28 878 000	6 720 000	35 598 000	-		35 598 000	33 867 056		(1 730 944)	95 %	117 %
Internally generated funds	11 065 000	-	11 065 000	-		11 065 000	2 820 787		(8 244 213)	25 %	25 %
Total sources of capital funds	**39 943 000**	**6 720 000**	**46 663 000**	**-**		**46 663 000**	**36 687 843**		**(9 975 157)**	**79 %**	**92 %**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	50 870 957	-	50 870 957	-		50 870 957	35 378 023		(15 492 934)	70 %	70 %
Net cash from (used) investing	(41 163 371)	-	(41 163 371)	-		(41 163 371)	(35 530 125)		5 633 246	86 %	86 %
Net increase/(decrease) in cash and cash equivalents	**9 707 586**	**-**	**9 707 586**	**-**		**9 707 586**	**(152 102)**		**(9 859 688)**	**(2)%**	**(2)%**
Cash and cash equivalents at the beginning of the year	4 814 293	-	4 814 293	-		4 814 293	4 814 293		-	100 %	100 %
Cash and cash equivalents at year end	**14 521 879**	**-**	**14 521 879**	**-**		**14 521 879**	**4 662 191**		**9 859 688**	**32 %**	**32 %**

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 interim 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.

The amounts presented in the annual financial statements are rounded-off to the nearest rand.

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

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

Provisions

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

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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 17.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The 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.

1.5 Biological assets

The municipality recognises biological assets or agricultural produce when, and only when:

- the municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of the pine plantations is based on the combined fair value of the land and the pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the pine trees.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets is included in surplus or deficit for the period in which it arises.

1.6 Investment property

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

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

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

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

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

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

1.6 Investment property (continued)

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.

Cost model

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

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

Item	**Useful life**
Property - land	Indefinite
Property - buildings	40 years

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

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

1.7 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.

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

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

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

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

1.7 Property, plant and equipment (continued)

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	15- 30 Years
Machinery and equipment	Straight line	10 Years
Furniture and office equipment	Straight line	2-15 Years
Transport Assets	Straight line	7 Years
Computer equipment	Straight line	3- 5 Years
Infrastructure	Straight line	10- 15 Years
Community	Straight line	25 Years
Other property, plant and equipment	Straight line	30 Years

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 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.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements..

1.8 Intangible assets

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

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

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.

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

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

Accounting Policies

1.8 Intangible assets (continued)

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

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

Item	Amortisation method	Average useful life
Computer software	Straight line	5 Years

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

1.9 Heritage assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Transfers

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

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

Accounting Policies

1.9 Heritage assets (continued)

Derecognition

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

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

Accounting Policies

1.10 Financial instruments

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

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

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

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 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 municipality.

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 municipality.

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

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

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

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

Accounting Policies

1.10 Financial instruments (continued)

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

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

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Accounting Policies

1.10 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

Financial liabilities

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

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

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

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 municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

1.11 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.

1.11 Statutory receivables (continued)

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

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

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

Recognition

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

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.

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.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

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.

Accounting Policies

1.11 Statutory receivables (continued)

- 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 are 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.

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 municipality 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.

1.12 Tax

Value Added Tax

The municipality is registered with the South African Revenue Service (SARS) for VAT on the invoice basis in accordance with Section 15(2) of the Value Added Tax Act No. 81 of 1991.

1.13 Leases

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

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

Accounting Policies

1.13 Leases (continued)

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.

1.14 Inventories

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

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

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

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

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

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

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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

Accounting Policies

1.15 Construction contracts and receivables

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

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

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

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

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

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

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

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

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

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

1.16 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.

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

Accounting Policies

1.16 Impairment of cash-generating assets (continued)

- the number of production or similar units expected to be obtained from the asset by the municipality.

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 municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities

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.

1.16 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.16 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 municipality estimates the recoverable amount of that asset.

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

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

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

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

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

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

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

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

Redesignation

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

1.17 Employee benefits

Employee benefits are all forms of consideration given by an municipality 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 municipality, 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 municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, 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 municipality to reimburse it for employee benefits already paid.

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

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

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

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

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

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

Accounting Policies

1.17 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality 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 municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

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

Post-employment benefits

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

Post-employment benefit plans are formal or informal arrangements under which an municipality 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 municipality, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned.

1.17 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

1.17 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:
- the amount determined above; and

1.17 Employee benefits (continued)

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

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

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

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

Accounting Policies

1.17 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.18 Provisions and contingencies

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

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

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

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

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

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

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

1.18 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of 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 municipality combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

1.19 Commitments

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

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

Accounting Policies

1.20 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

Interest

Revenue arising from the use by others of municipality assets yielding interest, 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.

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

Accounting Policies

1.21 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.22 Government grants

Grants received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is no corresponding liability in respect of the related conditions.

Where there are conditions attached to a grant or transfer that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without conditions attached are recognised as revenue in full when the asset is recognised, at an amount equaling fair value of the asset received.

1.23 Investment income

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

1.24 Expenditure

Classification of expenses:

Expenditure is classified according to nature or function.

Analysing expenses by nature

Analysing expenses by nature identifies costs and expenses in terms of their character and groups expenses according to the kinds of economic benefits or service potential received in incurring those expenses, irrespective of their application in the municipality’s operations and/or where the expenses are incurred. The municipality therefore analyses the direct goods or services acquired or assets consumed.

1.24 Expenditure (continued)

Certain line items such are presented separately in the financial statements where the municipality presents an analysis of expenses by nature. These line items usually consist of a combination of different elements of expenditure by nature.

Analysing expenses by function

The entity's that presents its expenses based on the entity's functions will allocate the elements of expenses such as "labour costs", "consumable material" and "transport costs", among the functions of the entity, for example, "water", "electricity", "roads", "housing" and "administration" functions are presented, with each function including its share of total expenses.

The municipal has adopted to disclosure expenditure according to nature. Certain line items have been disclosed separately in accordance with GRAP 1 on Presentation of Financial Statements.

1.25 Borrowing costs

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

1.26 Comparative figures

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

1.27 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.

1.28 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.

1.29 Irregular expenditure

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.

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.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.30 Budget information

Municipalities 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 an accrual basis and presented by economic classification linked to performance outcome objectives.

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

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

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

1.31 Related parties

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

Control is the power to govern the financial and operating policies of an municipality 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 municipality 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 municipality, but is not control over those policies.

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

Close members of the family of a person are 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 municipality or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting munici'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 municipality’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.32 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.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2020	
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	
• GRAP 34: Separate Financial Statements	01 April 2020	
• GRAP 35: Consolidated Financial Statements	01 April 2020	
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	
• GRAP 37: Joint Arrangements	01 April 2020	
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	
		Unlikely there will be material impact.

2.2 Standards and interpretations effective but not adopted in the current year

The municipality has opted to adobt the transition provision relief in the application of certain standards. Therefore, the municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 April 2020 or later periods.

The municipality has Statutory Receivables which were accounted for under GRAP 23: Receivables from Non-Exchange Transactions.

Date of implementation and compliance is 30 June 2022.

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	01 April 2020
• GRAP 108: Statutory Receivables	01 April 2020

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations are not yet effective or effective date has not been finalised.

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 Financial Instruments	01 April 2023	
• GRAP 25 Employee Benefits (revised)	01 April 2023	
		Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

3. Inventories

Consumable stores	971 780	738 578

Inventory pledged as security

There is no Inventory pledged as security.

4. Receivables from Non-Exchange Transactions

Traffic Fines	439 558	856 402
Other non-exchange receivable	412 560	-
Rates	22 905 451	16 061 699
	23 757 569	**16 918 101**

Receivables from Non-Exchange Transactions pledged as security

There are no Receivables from Non- Exchange Transactions pledged as security.

Property rates debtors disclosure

Gross balances	28 860 704	21 028 733
Allowance for impairment	(5 955 253)	(4 967 034)
	22 905 451	**16 061 699**

Rates		
Current (0-30 days)	2 323 065	427 050
31- 60 days	4 304	865 012
61- 90 days	796 923	480 845
91- 120 days	797 292	279 488
121- 365 days	8 792 000	177 409
> 365 days	16 139 145	13 831 895
	28 852 729	**16 061 699**

Rates

Rates are imposed under the Municipal Property Rates Act, 6 of 2004. Rates are billed on properties under the juristiction of the municipality, according to the tariffs. Please refer to Note 24.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

4. Receivables from Non-Exchange Transactions (continued)

Summary of property rates debtors by customer classification

Organs of State		
Current (0 -30 days)	615 828	71 490
31 - 60 days	225	201 827
61 - 90 days	224 960	154 937
91 - 120 days	254 626	59 783
121 - 365 days	5 103 168	129 739
> 365 days	8 654 732	6 376 552
	14 853 539	**6 994 328**

Commercial		
Current (0 -30 days)	755 943	314 488
31 - 60 days	1 758	146 256
61 - 90 days	198 634	143 359
91 - 120 days	179 691	128 850
121 - 365 days	1 215 465	362 583
> 365 days	2 437 495	1 456 744
	4 788 986	**2 552 280**

Households		
Current (0 -30 days)	957 463	41 073
31 - 60 days	2 321	78 035
61 - 90 days	376 405	182 548
91 - 120 days	366 042	90 854
121 - 365 days	3 247 637	215 089
> 365 days	4 260 336	5 907 492
	9 210 204	**6 515 091**

Fines disclosure

The municipality imposes traffic fines to offenders in accordance with the National Road Traffic Act, 1996 (93 of 1996).

Fines disclosure

Gross Balances	667 312	856 402
Less: Provision for Impairment	(227 754)	-
Net balance	**439 558**	**856 402**

Reconciliation of provision for impairment traffic fines

Opening balance	-	(74 586 748)
Provision for impairment	(227 754)	(1 796 487)
Amounts written off as uncollectible	-	76 383 235
	(227 754)	**-**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

4. Receivables from Non-Exchange Transactions (continued)

Amounts recognised in surplus or deficit

Outstanding balances on rates are subject to interest in accordance with the tariffs set by the municipality.

Property Rates	21 934 277	14 235 566
Property Rates- penalties imposed	1 115 802	1 321 972
Fines	195 240	507 390
	23 245 319	**16 064 928**

5. VAT receivable

VAT	4 937 419	3 051 547

VAT is levied in accordance with Value-Added Tax Act 89 of 1991.

6. Receivables From Exchange Transactions

Gross balances		
Electricity	6 274 008	5 271 150
Refuse	3 555 903	2 908 324
Creditors with debit balance	39 540	46 035
Property rentals	295 148	146 926
	10 164 599	**8 372 435**
Less: Allowance for impairment		
Electricity	(1 301 126)	(1 174 490)
Refuse	(1 249 368)	(1 239 554)
	(2 550 494)	**(2 414 044)**
Net balance		
Electricity	4 972 882	4 096 660
Refuse	2 306 535	1 668 770
Creditors with debit balances	39 540	46 035
Property rentals	295 148	146 926
	7 614 105	**5 958 391**
Electricity		
Current (0 -30 days)	1 475 220	1 479 374
31 - 60 days	687 843	622 370
61 - 90 days	398 505	330 976
91 - 120 days	259 149	254 500
121 - 180 days	263 106	356 304
181 - 365 days	224 942	192 050
> 365 days	1 664 117	861 086
	4 972 882	**4 096 660**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

6. Receivables From Exchange Transactions (continued)

Refuse		
Current (0 -30 days)	166 554	154 367
31 - 60 days	97 319	83 437
61 - 90 days	78 847	72 936
91 - 120 days	74 028	67 427
121 - 365 days	96 620	72 650
> 365 days	1 793 167	1 217 953
	2 306 535	**1 668 770**

Creditors with debit balance		
Current (0 -30 days)	39 540	46 035

Property rentals		
Current (0 -30 days)	6 306	20 579
31 - 60 days	7 017	-
61 - 90 days	5 065	6 834
91 - 120 days	10 000	6 834
121 - 365 days	100 915	41 834
> 365 days	165 845	70 845
	295 148	**146 926**

Reconciliation of allowance for impairment		
Balance at the beginning of the year	(2 414 044)	(1 304 445)
Contributions to allowance	(136 450)	(1 109 599)
	(2 550 494)	**(2 414 044)**

Receivables from Exchange Transaction pledged as security

There are no Receivables from Exchange Transactions pledged as security.

Figures in Rand	2021	2020

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021	2020
Cash on hand	820	400
Bank balances	2 967 196	3 219 945
*Short-term deposits	1 694 176	1 593 946
	4 662 192	**4 814 291**

Cash and cash equivalents pledged as guarantee

	2021	2020
First National Bank - Fixed Deposit - 712450040078 Pledged as a guarantee to Eskom	1 540 000	1 540 000

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 - Current (Main) - 54980006117	2 891 116	3 157 939	1 065 038	2 891 165	3 158 027	1 065 058
First National Bank- Current - 62330092470	76 032	61 921	32 753	76 032	61 921	32 753
Investec Bank - Call - 1100435097501	47 258	47 268	47 268	47 258	47 268	47 384
First National Bank - Fixed Deposit - 712450040078	1 540 000	1 540 000	1 540 000	1 540 000	1 540 000	1 540 000
First National Bank - Call Account - 62051262146	100 144	106	994	100 144	106	994
First National Bank - Call - 62532053204	1 212	1 176	1 115	1 212	1 176	1 115
First National Bank - Call Account - 62771806092	2 593	2 517	2 385	2 593	2 517	2 385
First National Bank - Call Account - 62771807016	2 969	2 881	2 730	2 969	2 881	2 730
Total	**4 661 324**	**4 813 808**	**2 692 283**	**4 661 373**	**4 813 896**	**2 692 419**

Notes to the Annual Financial Statements

8. Biological assets

	2021			2020		
	Cost	**Accumulated impairment**	**Carrying value**	**Cost**	**Accumulated impairment**	**Carrying value**
Plantation	1 897 269	-	1 897 269	1 211 074	-	1 211 074

Reconciliation of biological assets - 2021

	Opening balance	**Gains or losses arising from changes in fair value**	**Total**
Plantation	1 211 074	686 193	1 897 269

Reconciliation of biological assets - 2020

	Opening balance	**Gains or losses arising from changes in fair value**	**Total**
Plantation	2 762 238	(1 551 163)	1 211 074

Pledged as security

There is no plantation pledged as security.

The plantation is planted forestry area totalling 72.09 ha. Valuation is performed on annual basis.

Notes to the Annual Financial Statements

9. Investment property

	2021			2020		
	Cost	**Accumulated depreciation**	**Carrying value**	**Cost**	**Accumulated depreciation**	**Carrying value**
Investment Properties	238 995	(163 860)	75 135	238 995	(146 082)	92 913

Reconciliation of investment property - 2021

	Opening balance	Depreciation	Total
Investment Properties	92 913	(17 778)	75 135

Reconciliation of investment property - 2020

	Opening balance	Other changes, movements	Depreciation	Total
Investment Properties	106 351	4 708	(18 146)	92 913

Pledged as security

There is no Investment Property pledged as security.

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

Amounts recognised in surplus or deficit

Rental revenue from Investment property	213 920	237 187

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2021			2020		
	Cost	**Accumulated depreciation**	**Carrying value**	**Cost**	**Accumulated depreciation**	**Carrying value**
Land	45 913 792	-	45 913 792	46 323 792	-	46 323 792
Machinery and Equipment	5 588 180	(2 909 108)	2 679 072	5 259 322	(2 357 246)	2 902 076
Furniture and Office Equipment	2 047 265	(1 128 689)	918 576	1 862 594	(967 671)	894 923
Transport Assets	11 430 347	(6 551 743)	4 878 604	10 308 504	(5 872 444)	4 436 060
Computer Equipment	1 201 561	(636 788)	564 773	962 154	(521 977)	440 177
Community Assets	107 735 907	(31 107 026)	76 628 881	105 346 131	(25 640 403)	79 705 728
Road infrastructure	138 506 604	(30 302 133)	108 204 471	118 562 306	(21 457 501)	97 104 805
Work in Progress	60 160 344	-	60 160 344	54 930 573	-	54 930 573
Stormwater Infrastructure	12 287 030	(2 335 942)	9 951 088	9 030 557	(1 866 318)	7 164 239
Solid Waste Infrastructure	773 927	(67 600)	706 327	142 995	(64 406)	78 589
Water Supply Infrastructure	1 984 882	(793 953)	1 190 929	1 984 882	(595 465)	1 389 417
Electrical Infrastructure	88 389 043	(23 175 424)	65 213 619	88 389 043	(18 955 697)	69 433 346
Other Assets	30 588 093	(9 264 457)	21 323 636	27 699 052	(7 951 317)	19 747 735
Total	**506 606 975**	**(108 272 863)**	**398 334 112**	**470 801 905**	**(86 250 445)**	**384 551 460**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	46 323 792	-	(410 000)	-	-	-	45 913 792
Machinery and Equipment	2 902 076	295 083	-	33 775	-	(551 862)	2 679 072
Furniture and Office Equipment	894 923	205 602	(9 566)	-	-	(172 383)	918 576
Transport Assets	4 436 060	1 804 072	(346 400)	-	-	(1 015 128)	4 878 604
Computer Equipment	440 177	259 805	(11 607)	-	-	(123 602)	564 773
Community Assets	79 705 728	-	-	2 389 776	-	(5 466 623)	76 628 881
Road Infrastructure	97 104 805	-	-	19 944 299	-	(8 844 633)	108 204 471
Work in Progress	54 930 573	33 743 136	-	(28 513 365)	-	-	60 160 344
Stormwater Infrastructure	7 164 239	-	-	3 256 473	-	(469 624)	9 951 088
Solid Waste Infrastructure	78 589	-	-	-	630 932	(3 194)	706 327
Water Supply Infrastructure	1 389 417	-	-	-	-	(198 488)	1 190 929
Electrical Infrastructure	69 433 346	-	-	-	-	(4 219 727)	65 213 619
Other Assets	19 747 735	-	-	2 889 042	-	(1 313 141)	21 323 636
	384 551 460	**36 307 698**	**(777 573)**	**-**	**630 932**	**(22 378 405)**	**398 334 112**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Prior period adjustments	Total
Land	46 198 292	-	-	-	-	-	125 500	46 323 792
Machinery and Equipment	3 072 453	320 837	-	-	-	(512 030)	20 816	2 902 076
Furniture and Office Equipment	915 403	109 576	-	-	-	(152 689)	22 633	894 923
Transport Assets	5 845 871	880 890	(1 392 119)	-	-	(918 479)	19 897	4 436 060
Computer Equipment	454 848	73 775	-	-	-	(105 471)	17 024	440 177
Community Assets	79 882 200	-	-	5 157 248	-	(5 352 878)	19 158	79 705 728
Road Infrastructure	81 024 196	28	-	21 913 180	-	(6 718 657)	886 058	97 104 805
Work in Progress	48 136 037	33 896 515	-	(27 101 979)	-	-	-	54 930 573
Stormwater Infrastructure	7 545 216	-	-	31 551	-	(409 518)	(3 010)	7 164 239
Solid Waste Infrastructure	149 968	-	-	-	(66 009)	(5 370)	-	78 589
Water Supply Infrastructure	1 587 906	-	-	-	-	(198 489)	-	1 389 417
Electrical Infrastructure	73 482 775	-	-	-	-	(4 237 434)	188 005	69 433 346
Other Assets	20 969 575	-	-	-	-	(1 273 187)	51 347	19 747 735
	369 264 740	**35 281 621**	**(1 392 119)**	**-**	**(66 009)**	**(19 884 202)**	**1 347 428**	**384 551 460**

10. Property, plant and equipment (continued)

Pledged as security

There are no assets pledged as security.

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

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

	2021	2020
Thubalethu Housing Project The final road layers will be constructed as soon as the housing project is complete. This is due to the heavy plant that may damage the road if finalised before the houses are completed.	8 519 531	8 519 531
Manzawayo Gravel Road Extension of time was granted due to additional works and delays caused by the Corona Virus 2019 pandemic.	-	2 531 200
Nungwini Gravel Road Extension of time was granted due to additional work and delays caused by the Corona Virus 2019 pandemic.	-	4 118 609
Makhasaneni and Soqiwa Electrification A service provider had errorneously removed a critical component. Project will be handed over to Eskom on receipt.	21 616 973	-
	30 136 504	**15 169 340**

Reconciliation of Work-in-Progress 2021

	Included within Electrical Infrastructure	Included within Community Assets	Included within Road Infrastructure	Included within Other Assets	Total
Opening balance	33 147 038	1 606 816	11 657 187	8 519 531	54 930 573
Additions	8 166 331	13 058 877	13 274 756	-	34 499 964
Transferred to completed items	-	(6 052 403)	(23 407 478)	-	(28 513 365)
Prior period adjustment	-	-	(857 391)	-	(857 391)
	41 313 369	**8 613 290**	**667 074**	**8 519 531**	**60 059 781**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Included within Electrical Infrastructure	Included within Community Assets	Included within Road Infrastructure	Included within Other Assets	Total
Opening balance	20 012 325	2 503 160	17 101 020	8 519 531	48 136 036
Additions	13 134 713	4 260 904	16 500 898	-	33 896 515
Transferred to completed items	-	(5 157 248)	(21 944 731)	-	(27 101 979)
	33 147 038	**1 606 816**	**11 657 187**	**8 519 531**	**54 930 573**

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

Expenditure incurred to repair and maintain Property, plant and equipment included in Statement of Financial Performance		
Maintenance of Buildings and Facilities	1 162 526	1 143 744
Maintenance of Equipment	722 288	484 079
Maintenance of Transport Assets	1 256 715	654 609
Maintenance of Infrastructure	7 405 689	2 114 011
	10 547 218	**4 396 443**

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.

11. Intangible assets

	2021			2020		
	Cost	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	237 563	(175 029)	62 534	237 563	(156 221)	81 342

Reconciliation of intangible assets - 2021

	Opening balance	**Amortisation**	**Total**
Computer software	81 342	(18 808)	62 534

Reconciliation of intangible assets - 2020

	Opening balance	**Other changes, movements**	**Amortisation**	**Total**
Computer software	33 335	57 941	(9 934)	81 342

Notes to the Annual Financial Statements

Figures in Rand

12. Heritage assets

	2021			2020		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical monuments	589	-	589	589	-	589

Reconciliation of heritage assets 2021

	Opening balance	Total
Historical monuments	589	589

Reconciliation of heritage assets 2020

	Opening balance	Total
Historical monuments	589	589

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

13. Payables from exchange transactions

Trade payables	13 686 796	17 875 421
Payments received in advance	1 577 835	927 035
Retentions	2 782 911	4 071 479
Third parties - payroll	2 138 599	5 439 862
Other payables	3 076 573	1 631 406
Income received in advance- prepaid electricity	84 737	72 439
	23 347 451	**30 017 642**

14. Consumer deposits

Electricity	664 212	693 179
Other consumer deposits	332 480	332 627
	996 692	**1 025 806**

15. Unspent conditional grants and receipts

Unspent/(overspent) conditional grants and receipts comprises of:

Unspent/(overspent) conditional grants and receipts		
Integrated National Electrification Program Grant	1 730 944	-
COGTA Grant	-	17 134
Title Deed Restoration Grant	100 000	-
	1 830 944	**17 134**

16. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	3 729 181	-	-	630 932	4 360 113
Provision for bonuses	1 663 095	3 306 548	(2 504 109)	-	2 465 534
Provision for leave pay	3 744 597	2 233 355	(722 980)	-	5 254 972
Employee benefit cost	2 219 616	178 068	-	-	2 397 684
	11 356 489	**5 717 971**	**(3 227 089)**	**630 932**	**14 478 303**

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	3 795 190	-	-	(66 009)	3 729 181
Provision for bonuses	412 091	1 251 004	-	-	1 663 095
Provision for leave pay	3 208 716	751 422	(215 541)	-	3 744 597
Employee benefit cost	2 087 000	132 616	-	-	2 219 616
	9 502 997	**2 135 042**	**(215 541)**	**(66 009)**	**11 356 489**

Non-current liabilities	6 757 797	5 785 459
Current liabilities	7 720 506	5 571 030
	14 478 303	**11 356 489**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

17. Employee benefit obligations

Defined benefit plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid fund which is associated with the municipality, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund upon retirement. In such cases, the municipality is liable for a portion of the medical aid membership fee. The most recent actuarial valuations were carried out at 30 June 2020 by One Pangaea, Fellow of the Faculty of Actuaries and Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

Post retirement medical aid plan

The Municipality has agreed to subsidise the medical aid contributions of continuation pensioners in the following way:

- All new pensioners (that are currently still in service) and their dependents will receive a 60% subsidy upon attaining retirement age.
- All new pensioners (that are currently still in service) and their dependents will receive a 60% subsidy subject to the maximum (CAP) amount of R4,773.12 (per month per member).
- All existing continuation members (pensioners) and their dependents will continue to receive a 60% subsidy subject to the maximum (CAP) amount of R4,773.12 (per month per member).
- The maximum subsidy is expected to increase at 50% of inflation

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

Carrying value		
Present value of the defined benefit	(3 735 897)	(2 356 261)

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

Opening balance	2 356 260	3 442 000
Net expense recognised in the statement of financial performance	1 379 636	(1 085 740)
	3 735 896	**2 356 260**

Net expense recognised in the statement of financial performance

Current service cost	196 475	349 000
Interest cost	335 228	306 000
Actuarial (gains) losses	885 022	(1 707 740)
Expected return on reimbursement rights	(37 089)	(33 000)
	1 379 636	**(1 085 740)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11.97 %	14.34 %
Medical cost trend rates	8.76 %	10.60 %
Expected increase in salaries	1.50 %	6.25 %
Expected pension increases	7.26 %	6.20 %

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

18. Service charges

Service charges - reconnection fees	90 417	125 821
Sale of electricity	22 403 594	21 384 285
Refuse removal	1 360 464	1 687 798
	23 854 475	**23 197 904**

19. Rental of facilities and equipment

Facilities and equipment		
Rental income	213 920	237 187

20. Licenses and permits

Learner Driver Application	358 823	195 049
Motor Licenses	1 287 333	874 195
Business Licenses	2 972	4 755
Taxi rank Permits	31 083	29 248
	1 680 211	**1 103 247**

21. Other income

Sundry income	526 306	234 268
Building plan fees	28 844	22 371
Cemetery fees	30 641	16 400
Rates clearance certificate	3 556	13 198
Hoarding	756	9 952
Photocopying	3 834	19 479
Sale of municipal land	1 130 583	-
	1 724 520	**315 668**

22. Investment revenue

Interest revenue		
Bank	180 361	935 961
Interest charged on trade and other receivables	579 921	277 929
Short term deposits	54 318	104 387
	814 600	**1 318 277**

23. Fair value adjustments

Biological assets - (Fair value model)	686 195	(1 551 163)

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

24. Property rates

Rates Revenue

Residential	3 232 631	2 411 091
Commercial	7 656 705	5 377 825
State	9 002 632	4 359 940
Agriculture	1 702 829	1 865 483
Public service infrastructure	608	33
Vacant land	338 872	221 194
	21 934 277	14 235 566
Property rates - penalties imposed	1 115 802	1 321 972
	23 050 079	**15 557 538**

Valuations

Agriculture	1 003 650 000	875 933 000
Commercial	434 944 000	305 603 000
Municipal Properties	81 388 495	62 321 532
Places of worship	15 073 000	9 940 000
Public service Infrastructure	30 037	23 000
Public service purpose	332 193 237	254 370 000
Residential	463 162 000	340 664 000
State Trust Land	47 719 231	36 540 000
Vacant Land	20 021 000	12 455 688
Industrial	9 871 000	10 440 000
Land reform	44 860 000	44 860 000
Public benefit organisation	686 000	800 000
	2 453 598 000	**1 953 950 220**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2020. annual valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2025.

Property Rates Tarrifs:

Cent amount in the Rand determined for the relevant property category:

Agriculture	0.38	0.36
Commercial	1.91	1.82
Industrial	1.91	1.82
Public Service Infrastructure	0.38	0.36
Public Service Purpose	1.91	1.45
State Owned	1.91	1.45
Residential	1.52	1.45
Rural Tourism and Hospitality	1.52	1.45
State Trust Land	1.91	1.80
Urban Tourism and Hospitality	1.52	1.38
Vacant Land	1.91	1.72

Rebates:

Residential Properties	15%	15%
State Owned	0%	0%
Agriculture	30%	40%
Public Service Infrastructure	20%	30%
All Other Properties	15%	15%

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

25. Government grants and subsidies

Operating grants		
Equitable share	97 320 000	79 412 000
Expanded Public Works Programme (EPWP)	1 951 000	2 026 000
Financial Management Grant (FMG)	2 800 001	2 850 000
COGTA Grant	17 134	-
Community Library Grant	226 000	211 000
Provincialization of Libraries Grant	905 000	880 000
Municipal Disaster Relief Grant	-	745 000
	103 219 135	**86 124 000**
Capital grants		
Municipal Infrastructure Grant	24 439 000	18 033 000
Integrated National Electrification Grant (INEG)	9 428 056	15 000 000
	33 867 056	**33 033 000**
Total	**137 086 191**	**119 157 000**

Integrated National Electrification Grant (INEG)

Current-year receipts	11 159 000	15 000 000
Conditions met - transferred to revenue	(9 428 056)	(15 000 000)
	1 730 944	**-**

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

COGTA Grant

Balance unspent at beginning of year	17 134	17 134
Conditions met - transferred to revenue	(17 134)	-
	-	**17 134**

Expanded Public Works Programme Grant

Current-year receipts	1 951 000	2 026 000
Conditions met - transferred to revenue	(1 951 000)	(2 026 000)
	-	-

Financial Management Grant

Current-year receipts	2 800 000	2 850 000
Conditions met - transferred to revenue	(2 800 000)	(2 850 000)
	-	-

Municipal Infrastructure Grant

Current-year receipts	24 439 000	18 033 000
Conditions met - transferred to revenue	(24 439 000)	(18 033 000)
	-	-

Figures in Rand	2021	2020

25. Government grants and subsidies (continued)

Title Deeds Restoration Grant

Current-year receipts	100 000	-

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

Municipal Disaster Relief Grant

Current-year receipts	-	745 000
Conditions met - transferred to revenue	-	(745 000)
	-	-

Community Library Grant

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

Provincialization of Libraries Grant

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

26. Fines, Penalties and Forfeits

Traffic Fines	195 240	507 390

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Employee related costs

Basic	38 006 808	35 893 724
Bonus	2 504 109	2 315 391
Medical aid - company contributions	2 680 636	2 098 780
UIF	298 497	287 870
SALGA	15 217	15 665
Leave pay provision charge	730 747	514 729
Allowances	2 436 983	2 678 656
Overtime	1 285 000	2 026 708
Defined contribution plans	4 786 849	5 065 702
Travel, motor car, accommodation, subsistence and other allowances	3 609 325	3 795 955
Long-service awards	204 919	109 172
Housing benefits and allowances	890 983	916 754
Skills Development Levy	688 235	383 248
	58 138 308	**56 102 354**

Remuneration of Municipal Manager - P.P. Sibiya

Annual Remuneration	1 045 857	1 045 857
Car Allowance	150 000	150 000
Contributions to UIF	1 813	1 785
Remote Allowance	47 834	47 834
Skills Development Levy	10 114	9 832
	1 255 618	**1 255 308**

Remuneration of Director Technical Services - S.F Mchunu

Annual Remuneration	635 063	635 063
Car Allowance	180 000	180 000
Contributions to UIF	1 813	1 785
Remote Allowance	32 603	32 603
Cell Phone Allowance	13 500	18 000
Other Allowances	5 521	-
Skills Development Levy	8 692	6 632
	877 192	**874 083**

Remuneration of Acting Chief Financial Officer - N.M. Myeni

Annual Remuneration/Acting Allowance	-	65 186
	-	**65 186**

Remuneration of Chief Financial Officer - N.M. Myeni

Annual Remuneration	846 188	489 117
Car Allowance	157 204	87 500
Cellphone Allowance	-	9 000
Contributions to UIF, Medical and Pension Funds	10 197	9 622
Remote Allowance	39 848	23 064
	1 053 437	**618 303**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Employee related costs (continued)

Remuneration of Director Corporate & Community Services - Z.S Mthethwa

	2021	2020
Annual Remuneration	683 626	683 626
Car Allowance	150 000	150 000
Contributions to UIF	1 813	1 785
Remote Allowance	36 225	36 225
Housing Allowance	72 000	72 000
Skills Development Levy	7 600	7 282
	951 264	**950 918**

28. Remuneration of councillors

	2021	2020
Hon. Mayor	843 434	904 441
Deputy Mayor	729 488	731 748
Executive Committee Members	1 189 414	1 206 703
Hon. Speaker	424 998	426 311
All Other Councillors	5 823 156	6 047 864
	9 010 490	**9 317 067**

In-kind benefits

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

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

The Hon. Mayor, Deputy Mayor and Hon. Speaker each have a driver and a full-time bodyguard.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

29. Depreciation and amortisation

Property, plant and equipment	22 372 435	19 884 200
Investment property	17 778	18 147
Intangible assets	18 808	9 935
	22 409 021	**19 912 282**

30. Interest paid

Interest and penalties paid	201 340	990 712

Interest and penalties paid are mainly due to cash flow challenges which resulted due to arrears on accounts such as Eskom, Telkom, South African Revenue Service and Pension Funds.

31. Impairment of assets

Impairments		
Property, plant and equipment	-	10 275

32. Lease rentals on operating lease

Motor vehicles		
Contractual amounts	336 668	723 449
Equipment		
Contractual amounts	140 616	631 690
Plant and equipment		
Lease expenses	-	578 120
	477 284	**1 933 259**

33. Bulk purchases

Electricity - Eskom	19 361 792	19 091 365

34. Contracted services

Outsourced Services		
Business and Advisory	4 483 534	2 981 879
Catering Services	433 126	913 094
Cleaning Services	921 582	2 649 074
Clearing and Grass Cutting Services	124 693	142 609
Drivers Licence Cards	50 000	150 000
Fire Services	145 655	-
Internal Auditors	1 506 027	1 265 159
Personnel and Labour	37 938	-
Refuse Removal	2 027 240	385 130
Security Services	2 233 686	2 158 977
Transport Services	-	494 308
Website Maintenance	-	109 822
Consultants and Professional Services		
Business and Advisory	354 784	299 291
Infrastructure and Planning	197 589	380 611
Property Valuation Fees	289 818	2 003 936
Legal Cost	1 767 877	279 492

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

34. Contracted services (continued)

Contractors		
Catering Services	534 484	566 918
Employee Wellness	-	63 000
Event Promoters	495 674	1 791 199
First Aid	17 790	173 940
Maintenance of Buildings and Facilities	1 162 526	1 143 744
Maintenance of Equipment	928 198	484 079
Maintenance of Unspecified Assets	-	120 125
Maintenance of Transport Assets	1 256 715	654 609
Medical Services	-	36 943
Maintenance of Infrastructure	7 199 779	1 788 203
Transportation	8 537	447 012
Stage and Sound Crew	304 750	223 612
Total	**26 482 002**	**21 706 766**

35. Operational Costs

Advertising & Publicity	1 238 740	4 042 512
Assessment rates & municipal charges	19 883	8 193
Assets expensed	62 491	9 181
Auditors remuneration	1 949 224	2 211 842
Bank charges	143 330	122 348
Bursaries	707 306	288 899
Community development and training	-	21 300
Conferences and seminars	108 947	41 156
Consumables	1 259 963	468 195
Contribution to Provistion for Impairment	3 843 304	5 259 664
EPWP Stipends	1 107 724	3 148 066
Electricity	1 909 660	795 266
Fuel and oil	1 597 923	1 702 540
Hire	349 105	143 200
IT expenses	1 213 505	124 245
Indigent Relief	1 918 708	936 523
Insurance	1 048 015	966 696
LED Projects	1 434 664	2 113 625
Other expenses	127 309	25 568
Packaging	5 250	-
Printing and stationery	742 833	386 125
Protective clothing	1 123 501	320 763
Subscriptions and membership fees	575 276	556 433
Telephone and fax	821 230	993 568
Training	12 745	70 271
Travel and subsistence	410 232	697 211
Ward committee	1 772 145	1 754 100
Water	392 079	413 415
Workmen's compensation	264 114	280 309
	26 159 206	**27 901 214**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. Cash generated from operations

	2021	2020
Surplus	25 278 471	5 382 988
Adjustments for:		
Depreciation and amortisation	22 409 021	19 912 282
Loss on disposal of property, plant and equipment	29 143	(1 419 492)
Fair value adjustments	(686 195)	1 551 163
Impairment loss	-	10 275
Traffic fines written-off	378 738	-
Movements in retirement benefit assets and liabilities	1 379 636	(1 085 740)
Movements in provisions	2 719 902	1 853 492
Landfill provision adjustment	(630 932)	66 009
Other non-cash items	-	(4)
Changes in working capital:		
Inventories	(233 202)	(292 828)
Consumer debtors	(1 655 714)	443 646
Other receivables from non-exchange transactions	(6 839 468)	20 601 856
Payables from exchange transactions	(6 670 200)	3 360 957
VAT	(1 885 872)	(2 321 271)
Unspent conditional grants and receipts	1 813 809	-
Consumer deposits	(29 114)	4 794
	35 378 023	**48 068 127**

37. Auditors' remuneration

	2021	2020
Fees	1 949 224	2 211 842

Notes to the Annual Financial Statements

38. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	8 571 047	-	8 571 047
Other receivables from non-exchange transactions	22 748 932	-	22 748 932
Cash and cash equivalents	-	4 662 192	4 662 192
	31 319 979	**4 662 192**	**35 982 171**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	23 347 451	23 347 451

2020

Financial assets

	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	5 958 391	-	5 958 391
Other receivables from non-exchange transactions	16 918 101	-	16 918 101
Cash and cash equivalents	-	4 814 293	4 814 293
	22 876 492	**4 814 293**	**27 690 785**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	30 017 642	30 017 642

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

39. Commitments

Authorised capital expenditure

	2021	2020
Already contracted for but not provided for		
Property, plant and equipment	39 384 938	34 327 461
Total capital commitments		
Already contracted for but not provided for	39 384 938	34 327 461

Operating leases - as Lessee (expense)

	2021	2020
Minimum lease payments due		
- within one year	477 284	517 640

Operating lease payments represent rentals payable by the municipality for certain of its telephone equipment, photocopiers and motor vehicles. No contingent rent is payable.

Operating leases - as Lessor (income)

	2021	2020
Minimum lease payments due		
- within one year	198 352	158 485
- in second to fifth year inclusive	-	247 334
	198 352	**405 819**

Certain commonage and vacant land is held to generate rental income. Lease agreements are non-cancellable and there are no contingent rents receivable.

40. Contingencies

There is an ongoing case between the municipality and the MEC for COGTA KZN. The matter is awaiting judgement by the Constitutional Court.

The municipal attorney is anticipating the matter to be resolved before the end of the year, 2021.

The estimated costs and disbursements amount to R 180 000. The Municipality's attorneys believe that the management's description and estimates of the amount of financial exposure, which might arise in relation to the matters described above are reasonable.

Figures in Rand	2021	2020

41. Related parties

Relationships

Members of key management	P.P. Sibiya (Municipal Manager) N.M. Myeni (Chief Financial Officer) S.F. Mchunu (Director:Technical Services Z.S. Mthethwa (Director:Corporate and Community Services

Related party balances

The following councillors and key management owed the municipality in respect of traffic fines as at 30 June 2021.

Councillors		
Cllr P.E. Ntombela (Deputy Mayor)	2 350	2 350
Cllr N.A. Mbatha (Speaker)	2 900	2 900
Cllr M.N. Ndlangamandla	4 950	4 950
Cllr H.K.L. Zungu	10 250	10 250
Cllr E.M. Masikane (Former Councillor)	-	1 850
Cllr J. Mlawu	1 450	1 450
Cllr B.M.T. Sibiya	5 900	5 900
Cllr D.F. Xulu	600	600
Cllr T.F. Zincume	150	150
Cllr T.E. Mpungose	200	200
Cllr D.M. Dludla	5 600	5 600
Cllr Z.A. Sibiya	400	400
Cllr S.B.K. Biyela (Former Mayor)	-	500
	34 750	37 100
Directors		
Mr. P.P. Sibiya (Municipal Manager)	26 000	26 000
Mr. Z.S. Mthethwa (Director Community Services)	5 450	5 450
Mr. S. Mchunu (Director Technical Services)	950	950
	32 400	32 400

As per Section 124 (1)(b) of the MFMA, the following Councillors owed the Municipality in respect of property rates and service charges for a period of more than 90 days as at 30 June 2021.

Councillors	**2021**	**2020**
Cllr M.N. Ndlangamandla	-	1 522
Cllr N.A. Mbatha	246	2 346
Cllr E.M. Masikane (Former Councillor)	-	6 093
Cllr D.M Dludla	775	-
	1 021	**9 961**

Refer to Note 27 & 28 for disclosure of remuneration of key management and councillors.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

42. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by a central treasury department (municipality treasury) under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management

Liquidity risk

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

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

Financial liabilities	23 347 451	31 008 268

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial 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.

Cash and cash equivalents	4 662 192	4 814 293
Trade and other receivables	8 571 047	5 958 391
	13 233 239	**10 772 684**

43. 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.

(a) The Accounting Officer continue to procure funding for the ongoing operations for the Municipality.

(b) The Municipality have not lost any of the key customers or principal suppliers.

(c) The Municipality does not experience Labour difficulties.

(d) The Municipality does not have shortage of important suppliers.

(e) Financial results, bank account balance and net asset are all positive.

In addition, the municipality collects revenue for services rendered and the will augment their cash flows in subsequent years.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

44. Unauthorised expenditure

Opening balance as previously reported	38 838 086	33 129 821
Add: Unauthorised Expenditure - current year	-	5 708 265
Subtotal	**38 838 086**	**38 838 086**
Closing balance	**38 838 086**	**38 838 086**

45. Fruitless and wasteful expenditure

Opening balance as previously reported	1 389 032	398 320
Subtotal	**1 389 032**	**398 320**
Add: Fruitless and Wasteful Expenditure - Current year	201 340	990 712
Closing balance	**1 590 372**	**1 389 032**

Fruitless and wasteful expenditure comprises of interest on overdue accounts.

46. Irregular expenditure

Opening balance	83 184 577	87 923 008
Add: Irregular Expenditure - current year	24 345 817	23 958 412
Subtotal	**107 530 394**	**111 881 420**
Less: Amount certified by Council as irrecoverable and written off	(21 193 084)	(28 696 843)
Closing balance	**86 337 310**	**83 184 577**

Details of Irregular expenditure due to non-compliance with Section 29(2) Regulations

Dolphin Coast Solutions	646 481	188 425
Fidelity Cash Solutions	-	76 976
Brockwell Auto Engineering	1 702 983	336 927
Buthelezi Mtshali Mzulwini Attorneys	1 630 137	440 360
Chico Man Trading (Pty) Ltd	-	1 075 000
Ethala Construction	-	177 200
Indwe Risk Services	-	1 111 701
Jabulani Teressa Construction	219 658	538 883
Konica Minolta Zululand	138 479	269 946
Leaf Technologies	175 251	-
Magubane Plant and Construction	1 935 738	757 160
Mfezi Security	2 514 662	2 423 806
Ntungani Construction	1 587 473	2 425 905
PayDay	175 545	-
Sigcinubunye Funeral Services	1 189 710	492 940
Silo Group Holdings	-	418 186
Snobho (Pty) Ltd	274 620	41 400
Somkhanda Plant Hire	3 630 176	9 678 001
Sukumasakhe 968 Trading	285 944	2 000 106
Sure Boss Trading and Projects	4 546 508	660 238
Uhaqane MI Contractors	184 862	126 042
Uzamile Trading CC	-	184 748
Wesbank	354 857	-
Total	**21 193 084**	**23 423 950**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

46. Irregular expenditure (continued)

The Irregular Expenditure is as a result of appointments that were adjudicated by the Bid Committee comprising of three Senior Managers instead of the prescribed four Senior Managers as per Section 29(2) of the SCM Regulations.

Details of irregular expenditure due to non-compliance with local content requirements

Shantis Electrical- Ofankomo Electrification	1 040 826	-
Makoloni Projects- Inkisa Electrification	503 680	-
Masina Engineering- Umhlathuze Electrification	486 440	-
Southstruct Contractors - Gloves	2 000	-
Southstruct Contractors - Surgical Masks	27 000	-
Cherma Sales & Maintenance - Surgical masks	12 650	-
	2 072 596	**-**

Details of irregular expenditure due to non-compliance with tax regulations

Zumaan Group	552 139	-
Mthonjaneni Transport	-	109 100
BP Driving School	259 625	150 000
	811 764	**259 100**

Details of irregular expenditure due to deviations not approved

Ithemba Lamasiphula	-	192 850
Cherma sales & Maintenance CC	101 189	82 512
Bidvest Services (Pty) Ltd t/a Bidvest Steiner	167 186	-
	268 375	**275 362**

47. Deviation from supply chain management regulations

Deviations current year (Regulation 36)

Emergency procurement	2 675 414	5 328 072
Sole supplier or service provider	1 034 262	1 321 104
Impractical/Impossible to follow procurement process	29 855 532	4 184 079
	33 565 208	**10 833 255**

Deviations current year (Regulation 32)	2 772 510	5 235 989

Figures in Rand	2021	2020

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription fee	572 157	521 271
Amount paid - current year	(572 157)	(521 271)
	-	-

Electricity distribution losses

Units lost (Kilowatts)	1 418 613	1 445 470
Units lost (Selling Price)	2 584 545	2 489 061
Units lost (Purchase Price)	1 679 290	1 651 875
Units lost (Percentage)	8.67%	9.0%
	-	-

The electricity distribution losses are mainly due to aging infrastructure, technical losses and illegal connections.

Audit fees

Current year subscription fee	1 949 224	2 211 842
Amount paid - current year	(1 944 860)	(2 211 842)
	4 364	**-**

PAYE and UIF

Opening balance	(1 556 593)	-
Current year subscription fee	10 306 220	9 802 565
Amount paid - current year	(9 540 622)	(11 359 158)
	(790 995)	**(1 556 593)**

Pension and Medical Aid Deductions

Opening balance	2 480 606	-
Current year subscription fee	13 170 733	12 606 968
Amount paid - current year	(14 064 451)	(10 126 362)
	1 586 888	**2 480 606**

VAT

VAT receivable	4 937 419	3 051 547

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

49. Comparative figures

Certain comparative figures have been reclassified for improved disclosure.

The effects of the reclassifications are as follows:

	Note	As previously reported	Reclassification	Restated
Contracted Services	21	22 430 215	(723 449)	21 706 766
Lease Rentals on Operating Lease	22	1 209 810	723 449	1 933 259
		23 640 025	**-**	**23 640 025**

50. Prior period errors

Presented below are those items contained in the Statements of Financial Position, Statement of Financial Performance and the Statement of Changes in Net Assets that have been affected by prior-year adjustments:

Statement of financial position

2020	As previously reported	Correction of error	Restated
Increase/(Decrease) of Non-Exchange Receivables	13 441 127	(12 584 725)	856 402
Increase/(Decrease) of Property, Plant and Equipment*	383 193 757	1 357 703	384 551 460
Increase/(Decrease) of Intangible Assets	23 401	57 941	81 342
Increase/(Decrease) of Investment Property	88 205	4 708	92 913
Increase/(Decrease) of Payables from exchange transactions	28 999 104	1 018 538	30 017 642
Increase/(Decrease) of VAT	2 925 898	125 649	3 051 547

Amounts disclosed are on a net basis. Refer below.

*The error was due to a subsequent conditional assessment performed on Property, Plant and Equipment and land previously omitted from the fixed asset register.

Statement of Changes in Net Asset	As previously reported	Correction of error	Restated
(Increase)/Decrease in Accumulated Surplus	(384 702 218)	12 037 264	(372 664 954)

Reconciliation

Traffic Fines Debtors		
2019 Prior Period Adjustment	-	(7 093 581)
2020 Prior Period Adjustment	-	(5 491 145)
	-	**(12 584 726)**

An amount of **R 89,346,139** that formed part of non-exchange receivables in the prior year that relates to traffic fines issued in accordance with the National Road Traffic Act, 1996 (93 of 1996).

These traffic fines have expired and are not collectable. A prior period error has been processed in this regard.

Notes to the Annual Financial Statements

Figures in Rand

51. Change in estimate

A change in the estimated remaining useful life of various assets of the Municipality based on their conditional assessment conducted as at 30 June 2021 will result in the following increases/(decreases) in depreciation and amortisation for the 2021 financial year and future periods.

The impact on the statement of financial performance in the 2021 financial year and future periods:

Machinery and office equipment	5 838	
Other assets	26 953	
Road infrastructure	8 114	
Transport assets	13 643	
Community assets	12 995	
Computer equipment	4 670	
Electrical infrastructure	12 021	
Furniture and office equipment	(9 656)	
Investment property	349	-
Intangible assets	24 153	-
	99 080	**-**

52. Events after the reporting date

Public Unrest and Looting:

The unrest that happened in July 2021, resulted in some of the businesses being vandalised which forced some of the businesses to close. Some of the businesses are in the process of rebuilding. This may have a potentially negative impact on future revenue and collection.

However, all municipal infrastructure were not vandalised.

Irregular Expenditure:

On 30 August 2021, the Council of Mthonjaneni Local Municipality approved and certified the irregular expenditure of **R21,193,084** that existed at 30 June 2021, as irrecoverable and that it be written off. This is an adjusting post balance sheet event in terms of GRAP 14.

Traffic Fines

On 30 August 2021, the Council of Mthonjaneni Local Municipality approved and certified traffic fine debtors amounting to, **R 89,346,139** ,as irrecoverable and that it be written off. This is an adjusting post balance sheet event in terms of GRAP 14.

2021 Local Government Elections

The 2021 local government elections were held on 1 November 2021, the Municipal Council inauguration meeting took place on 22 November 2021 and a new Executive Committee was elected along with a new Mayor, Deputy Mayor and Speaker.

53. COVID-19 Response Expenditure

Due to the coronavirus pandemic, the president of the Republic of South Africa had to announce a declaration of a national state of disaster on 15 March 2020. Then on 18 March 2020, the regulations were published under the Disaster Management Act No. 57 of 2002 on steps to prevent an escalation of the disaster or to alleviate, contain and minimize the effects of the Disaster.

It became clear that the municipalities had to consider measures to give effect to the programme of preventing the spread of the virus. This meant that there would be procurement of goods and services in high volumes and the demand in the market would be very high. The market situation would conspicuously lead to uncompetitive and inflated prices of such goods and services.

Details of Funding for COVID-19 expenditure

National: Municipal Disaster Relief Grant	-	745 000
Total Funding for COVID-19 expenditure	**-**	**745 000**

Summary per category

Community and social services	82 524	142 609
General	100 085	362 277
Feeding/ Food distribution	420 000	364 630
Health	790 093	3 557 142

Community and social services

Town cleaning	82 524	142 609

Health

Cost of Screening and Testing	16 900	481 850
Masks	173 172	928 623
Sanitizers	449 713	1 935 907
Gloves	23 411	25 305
Medical Examination	84 830	121 000
Car Fogging Sprays	28 798	64 457

General

Office screens	18 676	111 734
Sanitisation of Office Buildings	81 409	140 473
Other	-	110 070

Feeding/ Food distribution

Covid 19 Relief - food parcels	420 000	364 630

54. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of four major functional areas:

- Executive and council
- Finance and administration
- Corporate services
- Technical services

The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

Notes to the Annual Financial Statements

Figures in Rand

54. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Executive and Council	Finance and Admin	Corporate Services	Technical Services	Total
Revenue					
Service charges	-	-	-	23 854 475	23 854 475
Rental of facilities and equipment	-	-	213 920	-	213 920
Licences and permits	-	34 055	1 630 710	-	1 664 765
Other income	-	548 769	-	1 191 196	1 739 965
Interest received	-	247 623	566 977	-	814 600
Fair value adjustments	-	686 195	-	-	686 195
Property rates	-	12 156 388	9 777 889	-	21 934 277
Property rates- penalties imposed	-	1 115 802	-	-	1 115 802
Grants	-	100 120 001	1 131 000	35 835 190	137 086 191
Fines, penalties and forfeits	-	195 240	-	-	195 240
Total segment revenue	**-**	**115 104 073**	**13 320 496**	**60 880 861**	**189 305 430**
Municipality's revenue					**189 305 430**

Notes to the Annual Financial Statements

Figures in Rand

54. Segment information (continued)

	Executive and Council	Finance and Admin	Corporate Services	Technical Services	Total
Expenditure					
Employee related costs	5 036 518	7 576 328	26 866 246	18 659 216	58 138 308
Remuneration of councillors	9 010 490	-	-	-	9 010 490
Depreciation and amortisation	-	17 517 988	3 194	4 887 839	22 409 021
Operating leases	-	-	-	477 284	477 284
Finance costs	-	201 340	-	-	201 340
Bad debts written off	-	378 738	-	-	378 738
Bulk purchases	-	-	-	19 361 792	19 361 792
Contracted services	3 744 173	6 623 953	2 849 650	13 264 226	26 482 002
Inventory consumed	79 176	-	1 653 660	1 569 452	3 302 288
Acturial (gain)/loss	-	1 379 636	-	-	1 379 636
Loss on disposal of assets	-	29 143	-	-	29 143
Operational costs	1 398 193	9 889 766	8 423 502	3 145 457	22 856 918
Total segment expenditure	**19 268 550**	**43 596 892**	**39 796 252**	**61 365 266**	**164 026 960**
Total segmental surplus/(deficit)					**25 278 470**
Assets					
Inventories	-	971 780	-	-	971 780
Receivables from non-exchange transactions	-	23 757 569	-	-	23 757 569
VAT receivable	-	4 937 420	-	-	4 937 420
Receivables from exchange transactions	-	7 614 105	-	280 689	7 894 794
Cash and cash equivalents	-	4 662 192	-	-	4 662 192
Biological assets	-	1 897 270	-	-	1 897 270
Investment properties	-	75 135	-	-	75 135
Property, plant and equipment	83 073	71 261 318	79 340 263	247 649 458	398 334 112
Intangible assets	-	62 534	-	-	62 534
Heritage assets	-	589	-	-	589
Total segment assets	**83 073**	**115 239 912**	**79 340 263**	**247 930 147**	**442 593 395**
Total assets as per Statement of financial Position					**442 593 395**

Notes to the Annual Financial Statements

Figures in Rand

54. Segment information (continued)

	Executive and Council	Finance and Admin	Corporate Services	Technical Services	Total
Liabilities					
Payables from exchange transactions	-	23 347 449	-	-	23 347 449
Consumer deposits	-	996 692	-	-	996 692
Unspent conditional grants and receipts	-	1 730 944	-	100 000	1 830 944
Provisions	-	14 478 303	-	-	14 478 303
Employee benefits	-	3 735 897	-	-	3 735 897
Total segment liabilities	**-**	**44 289 285**	**-**	**100 000**	**44 389 285**
Total liabilities as per Statement of financial Position					**44 389 285**

Notes to the Annual Financial Statements

55. Budget differences

Material differences between budget and actual amounts

A - Property Rates

The municipality anticipated an increased in property rates base as a result of sale of land but due to the negative impact of COVID-19, not all sites were sold which resulted in a less property rates than what was anticipated.

B - Service Charges

The municipality anticipated an increased in service charges base as a result of sale of land but due negative impact of COVID-19, not all sites were sold which resulted in a less services charges than what was anticipated.

C - Investment Revenue

When the COVID-19 restrictions were eased the municipality had to finalise and procure goods and services that were interrupted during lockdown to fast track service delivery to the community of Melmoth which resulted in less investments than what was anticipated.

D - Other Revenue

Great part of own revenue was from sale of land which were not 100% sold as anticipated. Also most of our adhoc own revenue such as facilities hire, licenses and permits, sale of tender documents, library fines which depends on demand and due to COVID-19 regulations some were not operating at its full capacity which negatively affected revenue collection. Also the appointed service provider to assist with traffic management couldn't commence with the contract due to unforseen circumstances which negetively affected traffic fines collection.

E - Depreciation and Asset Impairment

The variance was caused by the fact that the municipality did not dispose off all assets as planned, the additions and capital projects that were completed during the year, the municipality had to purchace emergency recovery vehicles for fire department which also increased the actual depreciation and asset impairment than anticipated.

F - Interest Paid

The municipality did not anticipate to incur interest or penalties due to late payments and thus it was not budgeted for.

G - Materials and Bulk Purchases

A change in tariff from Rural Night Save to Mini Flex resulted in a saving on bulk purchased and the implementation of cost containment measures resulted in a saving on some other materials items.